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REGIONAL ECONOMIC INTEGRATION IN THE DEVELOPING WORLD: HISTORICAL TRENDS AND FUTURE VIABILITY

BY

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JANUARY 1994

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Prepared for:
Chief of Naval Operations
Washington, D. C. 20350

94 5 03 115

NAVAL POSTGRADUATE SCHOOL
MONTEREY, CALIFORNIA

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This report was prepared in conjunction with research conducted for the Chief of Naval Operations and funded by the Naval Postgraduate School.

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Accesion For		
NTIS	CRA&I	☒
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Justification		
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Distribution /		
Availability Codes		
Dist	Avail and / or Special	
A-1		

(UNCLASSIFIED)
SECURITY CLASSIFICATION OF THIS PAGE

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION UNCLASSIFIED	1b. RESTRICTIVE MARKINGS
2a. SECURITY CLASSIFICATION AUTHORITY	3. DISTRIBUTION/ AVAILABILITY OF REPORT APPROVED FOR PUBLIC RELEASE; DISTRIBUTION IS ULIMITED.
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE	
4. PERFORMING ORGANIZATION REPORT NUMBER(S) NPS-NS-94-001	5. MONITORING ORGANIZATION REPORT NUMBER(S)
6a. NAME OF PERFORMING ORGANIZATION Naval Postgraduate School; 6b. OFFICE SYMBOL (If Applicable) NS	7a. NAME OF MONITORING ORGANIZATION
6c. ADDRESS (city, state, and ZIP code) MONTEREY, CA 93943-5100	7b. ADDRESS (city, state, and ZIP code)
8a. NAME OF FUNDING/SPONSORING ORGANIZATION OP-60; 8b. OFFICE SYMBOL (If Applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER
8c. ADDRESS (city, state, and ZIP code) CHIEF OF NAVAL OPERATIONS WASHINGTON, DC 20350	10. SOURCE OF FUNDING NUMBERS: PROGRAM ELEMENT NO. / PROJECT NO. / TASK NO. / WORK UNIT ACCESSION NO.

11. TITLE (Include Security Classification)

REGIONAL ECONOMIC INTEGRATION IN THE THIRD WORLD: HISTORICAL TRENDS AND FUTURE VIABILITY

12. PERSONAL AUTHOR(S)
STEPHEN G. BROOKS

13a. TYPE OF REPORT	13b. TIME COVERED	14. DATE OF REPORT (year, month,day)	15. PAGE COUNT
FINAL REPORT		JANUARY 1994	57

16. SUPPLEMENTARY NOTATION

17. COSATI CODES			18. SUBJECT TERMS (continue on reverse if necessary and identify by block number)
FIELD	GROUP	SUBGROUP	

19. ABSTRACT (Continue on reverse if necessary and identify by block number)

This study seeks to analyze the resurgence of regional economic integration efforts in the developing world. Economic integration is not a new phenomenon in the Third World, as substantial efforts were made during the 1960s and 1970s towards establishing regional markets. Understanding the basic elements of these previous integration experiences is essential, as it aids in assessing the future effectiveness of current developing country integration efforts. Section one provides a brief outline of the underlying motivational factors which led to integration proposals during the 1960s and 1970s. The second section provides a brief structural overview of the eight most significant Third World trade pacts from this period. Section three then seeks to detail the factors which led to the failure of these integration attempts in order to determine their common structural deficiencies.

The second half of the paper deals with the ascendance of economic integration among Third World countries in the 1990s. Section four articulates the new rationale that exists for economic integration among developing countries. Section five then presents a short description of the ten Third World integration schemes that have emerged during the last four years. The final section uses the evaluative framework that was developed in section three in order to test the efficacy of the two most advanced integration schemes of the 1990s: the Southern Cone Common Market (Mercosur) and the ASEAN Free Trade Agreement.

20. DISTRIBUTION/AVAILABILITY OF ABSTRACT (X) UNCLASSIFIED/UNLIMITED ( ) SAME AS RPT ( ) DTIC USERS	21. ABSTRACT SECURITY CLASSIFICATION UNCLASSIFIED
22a. NAME OF RESPONSIBLE INDIVIDUAL STEPHEN G. BROOKS	22b. TELEPHONE (Include Area Code) (408) 656-2521; 22c. OFFICE SYMBOL NS

DD FORM 1473, 84 MAR   83 APR edition may be used until exhausted   SECURITY CLASSIFICATION OF THIS PAGE
All other editions are obsolete\

Introduction and Organization

This study seeks to analyze the resurgence in popularity of regional economic integration schemes in the Third World. In the last few years, a plethora of new economic integration efforts among developing countries have been proposed, including the Southern Cone Common Market (Mercosur), the ASEAN Free Trade Agreement, and the Group of Three. Attempts are also being made to revive a number of pre-existing organizations, including the Caribbean Common Market (CARICOM), the Central American Common Market (CACM), and the Andean Pact. In addition, a number of economic integration proposals have been advanced which comprise both developing and industrialized countries, namely the North American Free Trade Agreement (NAFTA), the East Asian Economic Caucus (EAEC) and the Enterprise for the Americas Initiative (EAI).

Economic integration is not a new phenomenon in the Third World, as substantial efforts were made during the 1960s and 1970s towards establishing regional markets. Understanding the basic elements of these previous integration experiences is essential, as it aids in assessing the future effectiveness of current developing country integration efforts. Consequently, the first half of the study is a historical analysis of Third World economic integration schemes that were attempted in the 1960s and 1970s. Section one provides a brief outline of the underlying motivational factors which led to integration proposals during this period. The second section describes underlying structure of the eight most significant developing country trade pacts of that period. Because none of these eight integration schemes were able to achieve significant gains, section three then seeks to detail the factors which led to their failure in order to determine their common structural deficiencies.

The second half of the paper deals with the ascendance of economic integration among Third World countries in the 1990s. Section four articulates the new rationale that exists for economic integration among developing countries. The drive towards economic integration in the Third World is analyzed in terms of being both a defensive reaction to the rise of regionalism in the industrialized world as well as an attempt to move away from inward-oriented development strategies. Section five then presents a short description of the Third World integration schemes that have emerged in the 1990s. The final section uses the evaluative framework that was developed in section three in order to test the efficacy of the two most advanced integration schemes of the 1990s: Mercosur and the ASEAN Free Trade Agreement. The structures of these two agreements are assessed in order to see whether they have avoided the problems that befell previous integration efforts.

Underlying Rationale for Regional Economic Integration in the 1960s and 1970s

The roots of regional economic integration efforts in the Third World are

intimately related to the quest for economic development. Economic integration came to be seen as an important element of the Third World's development strategy largely because of the way the region viewed the international economic system during the 1960s and 1970s. At this time, the international economy was seen as having been disadvantageously constructed to the interests of the Third World. As will be seen, this world view resulted in the adoption of a particular approach to development, namely import substitution, which precipitated the need for regional economic integration.

In 1950, Raul Prebisch brought forth the influential theory of declining terms of trade faced by the Third World. Prebisch's theory posited that the international economic system was set up in such a way that industrialized countries, the "Center", were becoming steadily richer while countries in the Third World, the "Periphery", were growing gradually poorer.[1] Prebisch maintained that exports from the Third to the industrialized countries were gradually being reduced in price while Third World imports from industrialized countries were becoming steadily more expensive. Such a pattern of trade was seen as the result of colonial trade patterns set up to supply the industrialized countries with raw materials while using the Third World as a market for finished products.[2] Prebisch argued that the industrialized world's demand for raw materials had a long-term downward tendency, due to both low income-elasticity demand for raw materials and the development of synthetics.[3] He also contended that "the benefits of technological process in the industrialized world went to higher wages and profits rather than into lower prices."[4]

The Third World's limited economic power relative to the industrialized countries made it impossible to restructure the international economic system more advantageously through negotiations.[5] As long as the Third World remained part of this exploitative international system, it was argued that the gap between rich and poor would continue to widen. In order to be able to develop, there was general consensus throughout the Third World that policies would need to be implemented to promote domestic industries. Most economic policy makers felt that the patterns of trade that Prebisch described were merely a reflection of comparative advantages that had been artificially imposed by colonialism.[6] Comparative advantages were not seen as unalterable, however, and various

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[1]dos Santos, Theotonio. "The Structure of Dependence." American Economic Review, Vol. 60, 1970, p. 231.

[2]Cardoso, Fernando and Enzo Faletto. Dependency and Development in Latin America. 1979. Berkeley: University of California Press.

[3]Hirschmann, Albert. "Ideologies of Development in Latin America", in Latin American Issues: Essays and Comments. 1961. New York: Twentieth Century Fund, p. 15.

[4]Mitchell, Christopher. The Role of Technocrats in Latin American Integration. Inter-American Economic Affairs, Summer 1967.

[5]Baer, Wener. The Economics of Prebisch and ECLA. Economic Development and Cultural Change, January 1962.

[6]Isbister, John. Promises Not Kept. 1990. Santa Cruz: Merrill College, p.43.

programs were consequently designed to try and raise the competitive position of Third World countries.

Import substitution was the central policy that was adopted to reverse the declining terms of trade, as the most logical way seen to rectify the problem of imports that were becoming steadily more expensive was to have the domestic economy produce those goods. Using import substitution, it was believed that developing countries could foster efficient industries. The advocates of import substitution knew, however, that there would initially be substantial trade diversion, the process whereby efficient external suppliers are replaced by inefficient, domestic ones. However, it was felt that the inefficiency would only be temporary. What was essential was that embryonic industries be protected long enough so that they could benefit from 'learning effects'. As learning effects influenced the production process, planners felt that inefficiencies would be steadily reduced. Thus, it was felt that while the cost of static (immediate) trade diversion would high, that the cost of dynamic (long-term) trade diversion would be minimal. In fact, it was eventually hoped that some of the industries would become efficient to point that they would have a comparative advantage with the rest of the world, thereby reversing the declining pattern of trade.

The first phase of import substitution achieved a number of significant successes. The industries that most developing countries initially protected were ones they were not significantly uncompetitive in, such as basic consumer goods. These industries were largely labor intensive, and were therefore compatible with the factor endowments of developing economies. In addition, international competition during this period was drastically reduced as a result of the interruption of trade from Europe due to World War II. Consequently, these industries could prosper under relatively low levels of protection, which limited the drain on public resources.[7]

Import substitution ran into significant problems, however, during its second phase when countries began to protect industries other than labor-intensive products. Severe inefficiencies resulted when countries began to promote industries that were more technologically based, especially capital goods. The main constraint on producing technological goods was that domestic markets were too small to set up plants that were large enough to reap economies of scale.[8] Even large developing countries, such as Brazil, had markets that were too limited to be able to produce these goods efficiently.[9]

Achieving economies of scale was imperative, since the technology that was used for these goods was designed to serve very large production runs.[10] Many of

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[7]Baer, Wener. Import Substitution and Industrialization in Latin America: Experiences and Interpretations. Latin American Research Review, Spring 1972

[8]Teitel, Simon. Economies of Scale and Size of Plant: The Evidence and the Implications for Developing Countries. Journal of Common Market Studies, Vol. 13, 1975

[9]Cardos and Faletto, p. 5

[10]Inter-American Development Bank. 1984. Economic and Social Progress in Latin America:

these second phase industries were not indigenous to the economies of the region, which necessitated a reliance, at least initially, on first world technology. Without economies of scale, import substitution would be extremely ineffective, since the industries would always be greatly inefficient.[11] Rather than than promoting development, such industries proved to be a huge drain on countries' resources.

Because dependency theorists were still ascendant at this time, there was a great reluctance to abandon import substitution. It was this effort to maintain the policy of import substitution which led to the plans for regional economic integration that were enacted in the 1960s. Regional economic integration seemed the only means to achieve economies of scale, while still continuing the policy of import substitution.[12] It was argued that by aggregating a number of different economies, there would be enough consumers that producers would be able to produce in an efficient manner.

Attempts at Regional Economic Integration by Developing Countries During the 1960s and 1970s

In this second section, eight attempts at Third World economic integration that occurred during the 1960s and 1970s will be reviewed. These eight treaties are only a partial list of integration proposals, however, as there were literally dozens of formal groupings that were ratified during this period. Nevertheless, only a subset of integration efforts require reviewing. The purpose of this section is not to understand the full range of previous integration efforts, but instead only those that can help to either explain or evaluate current integration efforts that have been initiated in the 1990s. There are therefore two categories of Third World integration efforts which will not be dealt with in this paper.

The first category that will not be reviewed are the large number of Third World integration efforts which never achieved any results whatsoever. Because these groups essentially existed only on paper, there is not much to learn from their experiences. This category includes the East African Economic Community, the Central African Economic and Customs Union, the West African Customs Union, the Economic Cooperation among Maghrib Countries, the Regional Cooperation for Development among Pakistan, Iran and Turkey, and the Mano River Union.

A second category of integration attempts which will not be examined are those that were initiated in the 1980s and which are still ongoing. Included in this category are four principal trade groupings: the Preferential Trade Area for Eastern and Southern Africa (PTA); the Gulf Cooperation Council (GCC); the Southern African Development Coordination Conference (SADCC); and the Lagos Plan of Action. Each of these trade groupings have achieved some success. The PTA, initiated in 1984, has

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Economic Integration. Washington DC. Inter-American Development Bank, p. 11.

[11] Teitel.

[12] Inter-American Development Bank, p. 16

begun to implement its program for tariff elimination, which has a goal of eliminating all barriers to trade by the year 2000. The GCC, initiated in the 1981, has already eliminated virtually all tariffs on intra-regional trade. The SADCC has helped to increase the amount of foreign capital in the region, as well as improving the communications and transportation links between the group's members. These four trade blocs have not been included in this study for two principal reasons. As I am more interested in understanding and identifying those common factors which have militated against successful implementation of Third World integration schemes, it is more productive to survey those proposals which were not successful. It is also more difficult to evaluate and draw conclusions about these four trade blocs than those which have already run their course, as partial implementation records are not nearly as definitive.

For the eight trade groupings included in this section, I will briefly outline the basic motivating factors for their emergence, the most fundamental aspects of their structure, their underlying goals, and their accomplishments. It is obviously impossible to give an accurate portrayal of each of these trade blocs in only a few pages. For the purposes of this study, it is merely important to comprehend the broad outlines of these groups. The information in this section will provide the basis for the more important analysis that will occur in the next section, where the common lessons that can be drawn from examining these organizations will be described.

Caribbean Common Market

In the 1960s, the Caribbean economies were largely competitive rather than complementary, and most of the region's exports consisted of primary products such as bananas, sugar, and citrus that were sent to the industrialized world rather than traded within the region.[13] As a result, integration in the Caribbean seemed an unlikely prospect. However, supporters of Caribbean integration maintained that the process could have beneficial effects in terms of promoting the development of industrial goods.[14] Discussions therefore concentrated on means to increase the available market size of the region. Integration efforts were aided by a relatively common West Indian identity that emerged from common experience with colonial rule.[15]

The first attempt at Caribbean integration was inaugurated in 1965. The Caribbean Free Trade Area (CARIFTA) aimed to eliminate all barriers to trade in basic commodities, and eliminate import duties on manufactured goods over a five year period.[16] Tariff cuts were delayed, however, as the agreement was not ratified until 1968. Nevertheless, trade barriers were significantly reduced during the first five years of the agreement, and the proportion of exports within the region increased from 3 per cent in 1967 to 5 per

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[13] Inter-American Development Bank, p. 53
[14] Wionczek, p. 126
[15] Gambari, p. 104
[16] Hall, Kenneth O. "The Carribean Community." In International Economic Integration edited by Ali M. El-Agraa. 1988. London: Macmillan Press, p. 220.

cent in 1973.[17] Efforts were directed not only at reducing intra-regional tariffs but also at broadening the group's membership. In 1973, accords were signed in Georgetown, Guyana to establish a larger Caribbean Common Market (CARICOM). The initial members of the CARICOM were Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts, St. Lucia, St. Vincent, and Trinidad and Tobago.[18]

The CARICOM treaty aimed to strengthen "the coordination and regulation of economic and trade relations" among the participating countries. Specifically, the treaty aimed to build upon the successes of CARIFTA by further reducing intra-regional tariffs. The agreement also sought to establish a common level of protection with respect to imports from outside the Community. Because other Third World integration efforts had led to inequitable distribution of gains and benefits, CARICOM sought to make sure that "special opportunities were provided to the less developed countries" within the group. In order to accomplish this goal, certain products from the less developed members of the group were assigned a guaranteed market share within the community.[19] In addition, CARICOM sought to establish certain regional industries. In the first step towards this process, a number of studies were undertaken to determine the relevant criteria for the selection and location of industries.[20]

CARICOM had much broader goals than many other Third World integration efforts, seeking to coordinate in a number of areas besides economic policy[21] The members of CARICOM sought to develop a common stance for the region on foreign policy issues, and envisioned the creation of joint overseas Missions and Embassies. Functionalist cooperation was another key goal of the architects of CARICOM. As a result, the treaty included provisions to promote "greater understanding among its peoples and the advancement of their social and cultural development." It was also hoped that judicial activity could also be coordinated through the West Indies Associated States Supreme Court.[22]

In its initial stages, CARICOM achieved substantial progress. By 1982, more than 90% of goods traded within the region did not face any tariffs. As a result of this liberalization, intra-regional trade increased from 5% of the region's total exports in 1973 to nearly 9% by 1982.[23] Some progress was made on implementing a common external tariff, especially among the more prosperous members of the group. However, exemption lists gave individual countries the means to effectively set their own rates of import protection, which significantly reduced the

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[17]Demas, William and Jasper Scotland. "Experiences in Regional Cooperation: The Case of the Carribbean Community and Common Market (CARICOM)." In Regional Integration: the Latin American Experience edited by by Altaf Gauhar. 1985. London: Third World Foundation, p. 162.

[18]Gambari, p. 104

[19]Demas and Scotland, p. 161

[20]Demas and Scotland, p. 164

[21]Hall, p. 225

[22]Gambari, p. 105

[23]Demas and Scotland, p. 162

compatibility of tariff schedules within the region.[24]

There were a number of factors which constrained the long-term progress of CARICOM. The provisions providing for guaranteed market share for exports from the less developed members as well as the attempts to establish regional industries both proved impossible to implement and did not advance beyond the initial planning stage.[25] Significantly, the small size of the market made regional import substitution extremely inefficient. In addition, a number of political disputes developed within the community, reflecting the general level of political instability that existed in the region during the 1970s and early 1980s. The primary factor, however, which vitiated attempts at integration was that barriers to trade which had been lowered in the 1970s were raised in the following decade. During the 1980s, a number of member countries experienced severe balance of payments problems. As a result, many countries devalued their currencies and imposed comprehensive quantitative restrictions on imports, with no exceptions for intra-regional goods.[26]

ASEAN Preferential Tariff Agreement

The Association of Southeast Asian Nations (ASEAN) was created in 1967 by Singapore, Malaysia, Thailand, Brunei, Indonesia, and the Philippines. The group was formed in order to promote economic, social and cultural cooperation among its six members. For the first decade of its existence, the group did little to promote economic integration among its members, concentrating instead on political relations. Most of the group's activities were centered around developing consensus with reference to the Vietnam War.[27]

By the mid-1970s there was an increased desire among the group's members to improve the level of intra-regional trade, which was only around 13% of ASEAN's total foreign trade. As a result, the group signed the ASEAN Concord at the Bali summit in 1976. The Concord outlined goals for cooperation in four principal economic areas: basic commodities, specifically food and energy; promoting the establishment of large-scale ASEAN industrial projects; reducing intra-regional barriers to trade; and devising joint approaches and positions with regard to international economic issues.[28] In the end, reducing regional trade barrier was the only one of the four issues where ASEAN produced concrete deadlines.

In 1977, the economy ministers of the four countries drafted a treaty to establish the ASEAN Preferential Trading Agreement (PTA). The PTA's goals were not as extensive as most other integration efforts in the Third World, in that it did not even aim to establish a free trade area, let alone a customs union. Tariffs were to be

[24]Hall, p. 227
[25]Demas and Scotland, p. 164
[26]Inter-American Development Bank, p. 59

[27]Wong, J. ASEAN Economies in Perspective: A Comparative Study of Indonesia, Malaysia, the Phillipines, Singapore and Thailand. 1979. London: Macmillan Press.
[28]Carranza, Mario E. Regional Security and Economic Integration in Latin America and Southeast Asia: A Comparative Study (unpublished)

reduced on a product by product basis and decisions about which products to include in the agreement were made by consensus.[29] As a result, the objections of a single country to a certain product being included in the agreement could normally prevent all the other ASEAN countries from reaping the benefits of freer trade in that particular product.[30]

Under the accord, almost 16,000 products were given preferential trade status, but this huge number belies the true extent of the agreement. Those goods that were included in the agreement were either meaningless items that were not traded, or were goods which already faced low tariff rates.[31] The PTA thus failed to increase intra-ASEAN trade because most goods that were actually traded were excluded from the agreement. Goods included in the PTA account for only 5% of ASEAN's intra-regional trade.[32]

ASEAN also advanced two proposals for increasing industrial cooperation within the region. Under the ASEAN Industrial Projects (AIP) program, countries were to be granted comparative advantage within the region in five specific industries. Equity in these five industries was to be jointly held by the members of ASEAN, with one industry to be located in each country.[33] Copper-processing was allocated to the Philippines, a diesel engine plant for Singapore, a rock salt/soda ash project for Thailand, and urea projects for Indonesia and Malaysia.[34] ASEAN encountered great difficulties in raising the necessary investment finance for these industrial projects, however, and there was consequently little or no progress made in promoting this program.[35]

Attempts were made to strengthen the PTA in 1982 and again in 1987, but reducing the agreement's exemption list proved politically impossible. Rather than increasing trade linkages with each other, the members of ASEAN have concentrated upon developing exports markets in Japan, the United States, and Europe. Because of the difficulties of promoting economic cooperation, the group decided to concentrate upon improving its role as a forum for dialogue on political and security issues facing the region.

Latin American Free Trade Association

The Latin American Free Trade Association (LAFTA) was formed in order to increase the scope of industrialization beyond basic consumer industries and primary products. Demand for the region's primary products had declined

[29]Wong, J. "The Association of Southeast Asian Nations." In International Economic Integration edited by Ali M. El-Agraa. 1988. London: Macmillan Press.

[30]Wong, The Association of Southeast Nations, p. 318

[31]International Economic News, January 13, 1992.

[32]Asian Wall Street Journal, January 24, 1992, p. 1

[33]Gambari, Ibrahim. Political and Comparative Dimensions of Regional Integration. 1991. London: Humanities Press Interntional, p. 111.

[34]United Nations Conference on Trade and Development. Current Problems of Economic Integration. 1986. New York: United Nations, p. 97.

[35]United Nations Conference on Trade and Development, p. 99

substantially in the 1950s, and integration was seen as a means of promoting the development of newer, more dynamic industries. LAFTA was created in 1960 by the Montevideo Treaty, which was initially signed by Brazil, Chile, Argentina, Mexico, Peru, Paraguay and Uruguay. Within one year LAFTA was expanded to include Colombia and Ecuador, and a few years later Venezuela and Bolivia became members.

LAFTA's goal was to create a free trade area by 1973. The group's members pledged to have regular negotiations every three years in order to decide the program of tariff reductions. Tariff cuts were scheduled to be made on goods that member governments agreed to put on one of two specified lists: the national lists, where countries pledged to reduce tariffs by 8% after every round of negotiations; and the common lists, which were goods on which countries in LAFTA agreed to eliminate trade barriers over 12 years.[36] There was no attempt to establish a common external tariff or to coordinate the members' economies in any way.[37]

In addition to tariff reductions, the members of LAFTA agreed to try and increase the "integration and compatibility of their economies" by coordinating "their import and export regimes, as well as the treatment they accord to capital, goods and services from outside the area."[38] The treaty also envisioned closer coordination of industrialization policies within the region. No specific provisions on achieving either of these goals were included in the treaty, however.

There was some progress on tariff reductions in the early stages of the agreement. As a result, intra-regional trade increased from $299 million in 1961 to $675 million in 1966.[39] However, the agreement soon suffered, because of the politicized nature of tariff reductions. Difficult choices were avoided because countries had substantial latitude over selection of industries that they would reduce tariffs.[40] In addition, items on the common lists were often duplicated by the national lists, which further reduced the overall impact of tariff reductions.

Most importantly, a serious dispute developed within the agreement because member countries were at substantially different stages of development. In general, the larger, more industrialized countries within the group benefited disproportionately compared to the smaller, less developed members. New industries tended to be established only in those countries which were already industrialized. Efforts to resolve this dispute by granting special preferences to the smaller economies within the group proved unsuccessful, and the program of

[36]Inter-American Development Bank. Economic and Social Progress in Latin America: Economic Integration. 1984. Washington: Inter-American Development Bank, pp. 16-17.
[37]Haas, Ernst B. and Phillipe Schmitter. The Politics of Latin American Economic Integration. Monograph Series in World Affairs. 1965. Denver: University of Denver.
[38]Chapter 3 of the Montevideo Treaty
[39]Wionczek, Miguel S. Economic Cooperation in Latin America, Africa and Asia. 1969. Cambridge: The M.I.T. Press, p. 36.
[40]Manzetti, Luigi. "Argentine-Brazilian Economic Integration: An Early Appraisal." Latin American Research Review, Vol. 25, No. 3, p. 111.

tariff reductions soon ground to a halt due to the objections raised by the smaller economies within LAFTA.[41]

Andean Pact

The Andean Pact was formed in reaction to the inequitable distribution of gains from LAFTA. The two small countries most critical of LAFTA, Chile and Colombia, were the main architects of the Andean Pact. In 1966, the leaders of the these two countries invited the other small states in LAFTA, Peru, Venezuela, Bolivia and Ecuador, to a meeting to discuss ways to change LAFTA so that it was not so injurious to their interests.[42] At this time, discussions were initiated about the possibility of forming a smaller association within LAFTA. Eventually, the agreements that resulted from these discussions became the basis for the Cartagena Agreement, which was signed in 1969 to inaugurate the Andean Pact.[43]

The Andean Pact was perhaps the most innovative attempt at Third World economic integration. The framers of the Andean Pact envisioned the creation of a common market by 1979. Tariffs were to be cut by the member states at a rate of 10% per year, and a common external tariff was to be established by 1985. In addition to regular negotiations between the respective governments in the agreement, a two-tiered regional decision-making structure was created to formulate policies to reach the group's objectives.[44]

As a result of its formation, the main components of the agreement tried to make up for LAFTA's inadequacies, and a strong emphasis was placed upon developing a regional approach to development. Special incentives were given to the less developed members of the group, Bolivia and Ecuador, such as priority in regional development plans, an additional five years to eliminate tariffs and to comply with the common external tariff, and preference in receiving funds from the Andean Development Corporation. The chief task of the Andean Development Corporation was to promote integration by funding regional development projects. Specifically, it was hoped that the corporation would increase the ease of intra-regional communication and transportation.

A significant characteristic of the Andean Pact was that a number of stringent restrictions on foreign capital were stipulated in the agreement. In the manufacturing sector, profit transfers out of the region were limited to nothing greater than 14% of the amount of the investment. In order to discourage foreign ownership, only industries with more than 51% domestic ownership were entitled to

[41] Avery, William P. and James D. Cochrane. "Innovation in Latin American Regionalism: The Andean Common Market." International Organization, Spring 1973, p. 184.

[42] Avery, William P. and James D. Cochrane. "Innovation in Latin American Regionalism: The Andean Common Market." International Organization, Spring 1973

[43] Penaherrera, Germanico. "The Andean Pact: Problems and Perspectives." In Regional Integration: The Latin American Experience edited by Altaf Gauhar. 1985. London: Third World Foundation, p. 171.

[44] Morawetz, David. The Andean Group: A Case Study of in Economic Integration among Developing Countries. 1973. Cambridge: the M.I.T. Press, p. 7.

benefit from tariff liberalization.[45] As a result of these restrictions, there was a large reduction in foreign investment within the region. In fact, immediately after this code was announced, a total of eighty-four US investments were canceled.[46]

One of the most distinctive features of the Andean Pact was the process whereby countries were assigned regional monopolies in certain products. Rather than establishing industries according to comparative advantage, industries were selected according to a two-step administrative process. In the first step, technical experts undertook feasibility studies and then made recommendations as to which industries should locate in what countries. These recommendations were then forwarded to a committee, whose allocation decision was then binding over the member states.[47]

In principle, the design of the Andean Pact was very impressive. However, it failed to have a significant impact because of disputes between members over which development plans were most appropriate. There were substantial disagreements arising from countries' fear that they would not receive their share of benefits. Due to these parochial attitudes, virtually no progress was made on establishing regional industries. In addition, the reduction in foreign investment was not supplemented by an increase in capital from within the pact, which constrained infrastructural improvements. Progress in the Andean Pact reached a virtual standstill in 1974, and the group remained in stasis throughout the remainder of the 1970s and all of the 1980s.

Central American Common Market

In the 1950s, Central America did not appear to be a very promising candidate for economic integration. There was very little compatibility between the five economies, and the economies themselves were both extremely small and highly dependent upon the export of primary products. Nevertheless, each of the Central American countries was deluged by reports and studies from the United Nations Economic Commission for Latin America (ECLA) which praised the benefits of economic integration. Largely as a result of this external coaxing, the five countries established the Central American Economic Cooperation Committee (CAECC) in 1952, which consisted of the economy ministers of these five countries.[48] Progress towards economic integration was greatly assisted by the lack of political differences between the various governments. With the possible exception of Costa Rica, the remaining countries in the region were remarkably similar in terms of their economic structures and

[45] Milenky, p. 89.

[46] Avery and Cochrane, p. 198.

[47] The technical experts were officially called the junta, while the committe which ultimately apportioned industries was the Commission. Countries not awarded an industry were still allowed to produce that good, but faced the tariff rates that existed before the agreement came into being.

[48] Bulmer-Thomas, Victor G. "The Central American Common Market." In International Economic Integration edited by Ali M. El-Agraa. 1988. London: Macmillan Press, p. 284

policies.[49] The discussions held by the CAECC eventually led to the drafting of a plan for integration in the region, which was officially agreed to with the signing of the Managua Treaty in 1960.

The goal of the Central American Common Market (CACM) was nothing less than the establishment of a regional economy. It was hoped that "one step would unerringly follow another- Common Market, customs union, economic union- on the road to regional unity."[50] As a result of its ambitious goals, CACM aimed to reduce tariffs on intra-regional trade very quickly, within six years of the ratification of the treaty. The agreement also sought to establish a common external tariff in approximately the same period of time. Unlike other Third World integration efforts, CACM was not plagued by a long list of product exemptions. Very few goods, namely basic foodstuffs and certain non-durable consumer goods, were not scheduled for tariff reductions.[51]

In order to promote development, the Central American Bank for Economic Integration (CABEI) was created. The bank's primary purposes were to grant technical assistance for infrastructure projects to increase the linkages between the five economies, to finance long-term industrial development projects, and to help coordinate agricultural projects.[52] Unlike many other regional development banks that were initiated by developing countries at this time, the purpose of CABEI was not to reduce dependence on foreign capital. As a result, funds for the bank came not only from the respective governments, but also the United States Agency for International Development (AID), the Inter-American Development Bank, and private banks such as Bank of America. Between 1962 and the middle of 1966, CABEI granted over $80 million in loans to the five countries.[53]

Progress on tariff reductions was remarkably rapid. By 1966, approximately 98% of the tariffs on intra-regional trade had already been eliminated. A common level of protection vis-à-vis products from the rest of the world had been established for almost 80% of the region's imports. Reducing tariff barriers was made possible largely because of the low level of industrialization within the region. Unlike many other attempts at integration in the Third World, there were not many established industries which sought continued protection from imports.[54] Because of the sharp drop in tariff barriers, there was a substantial increase in intra-regional trade. Intra-regional trade increased from $36.9 million in 1961 to approximately $175 million in 1966.[55]

49Gert Rosenthal. "The Lessons of Economic Integration in Latin America: The Case of Central America" in Regional Integration: the Latin American Experience edited by by Altaf Gauhar. 1985. London: Third World Foundation, p. 143

50Rosenthal, p. 144

51Bulmer-Thomas, p. 299.

52Wionczek, p. 482

53Wionczek, p. 483

54Edwards, S. and M. Savastano. "Latin America's Intra-regional Trade: Evolution and Future Prospects." In Economic Aspects of Regional Trading Agreements edited by D. Greenaway. 1989. New York: New York University Press.

55Wionczek, p. 104

The substantial progress in CACM was quickly halted, however, as a result of the outbreak of armed hostilities between El Salvador and Honduras in 1969. Poor conditions in El Salvador had caused approximately 300,000 of its citizens to migrate to neighboring Honduras. Lacking legal permits, these individuals were unable to obtain any of the land distributed by the Honduran government. As a result, many of these migrants returned to El Salvador with stories of mistreatment, which strained relations between the two countries. Hostilities commenced on July 14, 1969 when El Salvador invaded Honduras following an emotional soccer match between the two countries. The "Soccer War" led to a complete breakdown in trade between the two countries, and caused a complete disruption of CACM. Attempts to revive CACM at the end of the 1970s were temporarily successful, but soon foundered after the revolution in Nicaragua. The new Sandinista government in Nicaragua had no intention of cooperating with neighboring market economies. An intense civil war in El Salvador further heightened political differences within the region, and obviated any attempt to revive CACM.[56]

Arab Common Market

In 1950, after Israel's status as an independent state had become fully codified, many Arab countries felt that it was necessary to form a larger federation in order to balance the military potential of Israel. As a result, Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, and Yemen signed the Treaty of Joint Defense and Economic Cooperation.[57] The treaty did little more than create a council which consisted of the Economic Ministers of each of the respective countries. However, three years later, in May 1953, this council reached agreement on the need to form an Arab Common Market.[58] Besides aggregating these countries military capacities, the aim was to increase regional specialization and to produce with economies of scale. Of greater importance, the council hoped to create a unified policy on the extraction of petroleum, in order to reduce the influence of companies from the industrialized world which currently controlled the region's oil resources.

In response to the council's recommendations, the Agreement for Economic Unity was created in 1957. The goals of this treaty were quite extensive, as it aimed not just for the elimination of barriers to trade but also to the free movement of all the factors of production, with "the rights of residence and employment, transit, ownership, trusteeship, and inheritance" to be recognized throughout the region.[59] Fiscal, monetary and foreign trade policies were also to be coordinated and a common level of protection was to be established on

[56]Bulmer-Thomas, p. 300.

[57]Wionczek, p. 284

[58]Hani, M. Bani. "Obstacles to Arab Economic Integration." In The Problems of Arab Economic Development and Integration edited by Adda Guecioueur. 1984. Boulder: Westview, p. 180.

[59]Wionczek, p. 285

goods form outside the union.[60] Tariffs on intra-regional trade were scheduled to be completely eliminated by 1974.[61] By the end of 1963, the agreement had been signed by Iraq, Jordan, Kuwait, Syria, and United Arab Emirates, with the treaty becoming effective in 1964.

In the early stages of the agreement, tariffs were reduced somewhat. As a result, trade flows increased significantly, from $21 million in 1961 to $70 million in 1965. The agreement was significantly weakened by Article 14, however, which stated that member countries may apply "for the exclusion of certain products from the duty and tax exemption or reductions applied, and from the removal of quantitative restrictions by reasons of real and justifiable causes."[62] Countries were able to exercise considerable latitude as to which industries qualified for tariff reductions. As a result, the scope of tariff cuts became significantly reduced.

Political tensions within the group further weakened the process of tariff liberalization. Syria had serious disputes with both Iraq and the United Arab Emirates, and Jordan was distanced from virtually all of the other members of the pact.[63] In addition to political discord, the five economies were very incompatible. Iraq and Syria were pursuing policies of state socialism, which made any of the attempts at economic coordination within the region virtually impossible.[64] As a result, the agreement soon became completely fragmented and the small progress that had been made on tariff reductions was reversed.

[60]Musrey, Alfred. An Arab Common Market: Studies in Inter-Arab Trade Relations, 1920-1967. 1969. New York: Praeger, p. 108

[61]Musrey, p. 3

[62]Wionczek, p. 286

[63]Makdishi, Samir. "Arab Economic Cooperation: Implications for the Arab World." In Arab Industrialization and Economic Integration edited by Roberto Aliboni. 1979. London: Croom Helm, p. 101.

Economic Community of West African States

The Economic Community of West African States (ECOWAS) was created on May 28, 1975. The group consisted of sixteen states: Benin, Cape Verde, Gambia, Ghana, Guinea, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Burkina Faso. The goals of the group were very extensive, including the reduction in tariffs and quotas within the region and the establishment of a common external tariff.[65] The agreement went much further than many other Third World integration efforts, in that it also called for the elimination of the barriers to free movement of people, the coordination of agriculture policy, the development of regional infrastructure, the coordination of monetary policy; and the pooling of investment funds for mineral extraction.[66] These objectives were initially scheduled to be implemented over a fifteen year period.

Besides seeking economies of scale and the rationalization of production, the members of ECOWAS saw a need for

[64]Makdishi, p. 112.

[65]Gambari, p. 29

[66]Ezenwe, Uze. ECOWAS and the Economic Integration of West Africa. 1983. London: C. Hurst & Co, p. 127.

regional approaches to several other issues. A principal reason ascribed for the low level of trade linkages between the members of ECOWAS was the design of the region's roads and railway systems. Because this infrastructure had been set up by the colonial powers, most of the principal transportation in the region ran from the coast to each separate country. As a result, commodities could be more easily shipped outside of the region than within it. The members of ECOWAS hoped that a coordinated plan for infrastructure development could remove this impediment to trade within the region. Member countries also sought to augment production of the region's rich deposits of natural resources, including petroleum, iron ore and bauxite. It was hoped that pooling funds between the groups members would made it easier to developing these resources, as many of the smaller members did not have sufficient investment in this area.[67] Finally, a number of the countries in ECOWAS are land-locked and this tenuous access to the sea had a significant negative effect upon foreign investment. These land-locked states hoped that access to the sea "would be regularized and placed on a sounder basis" as a result of ECOWAS.[68]

The first five years of the agreement largely focused on designing the necessary protocols and regulations for reaching their group's objectives. As a result, there were very few actual steps which were taken to reduce barriers to trade.[69] The members of ECOWAS viewed this as a necessary process, however, and not a delay in the treaty. After the regulations were in place is, however, the group's efforts were significantly restrained. Virtually no progress was made in adopting a common external tariff or in reducing intra-regional tariffs. The plan to pool investment funds for the purpose of mineral extraction proved impossible to coordinate, as member countries were unable to decide upon the distribution of benefits. Common passports were issued to the citizens of the member countries, but true safeguards with regard to employment in other member countries proved elusive.[70]

While tariff reductions and other regional economic reforms proved elusive, some notable gains were achieved by the organization. Progress was delayed in terms of improving land transportation, yet ECOWAS made considerable gains with regard to the construction of more advanced telecommunications links within the region.[71] Ironically, perhaps the most tangible results that ECOWAS has achieved have ironically been in the political arena. A number of disputes within the region, such as Ghana-Togo and Liberia-Sierra Leone, were negotiated in part through ECOWAS.[72]

67 Gambari, p. 25
68 Gambari, p. 26
69 Ezenwe, p. 51
70 Gambari, p. 61
71 Ezenwe, p. 74
72 Gambari, p. 60

Common Structural Deficiencies Which Led to the Failure of Integration Efforts in the 1960s and 1970s

Product Coverage and the Process of Tariff Reductions & Exemptions

The greatest obstacle to any form of trade liberalization is that opening up markets invariably leads to economic dislocations such as displacement of workers employed in inefficient industries. While the vast majority of people in a country benefit by having open markets, the net benefit that they derive is small in comparison to the intense pain that is felt by workers who lose their jobs as a result of foreign competition As a result, political leaders often choose to appease those who care most intensely about the prospect of markets opening, which are those people who argue for continued protection. For this reason, it is important that tariff reduction programs be automatic and not subject to exemptions or delays.

Instead of limiting political barriers to trade liberalization, most Third World integration efforts were structured in such a way so as to encourage the development of political opposition. Rather than including all goods in the tariff reduction process, countries were normally able to choose the specific industries where they wanted to reduce trade barriers. Whether an industry became scheduled for trade liberalization became a political question, and countries for the most part carried through with tariff reductions only when no domestic industries were threatened. Policy makers normally sought to expand trade only in sectors that their country was capable of exporting. This reluctance to allow unproductive industries to be replaced by more efficient regional producers was caused by allegiance to import substitution. It was not efficiency that these countries were seeking, but rather the continuation of a domestic economic policy applied on a regional scale.

Political opposition was fostered to a further degree because many Third World integration treaties stipulated that the member countries needed to meet every few years in order to negotiate each round of tariff reductions. This meant that industries which did not win exemptions in an earlier round of negotiations could lobby their government at the next round. In addition, most Third World integration attempts contained some method of permanently exempting products from tariff reductions. Even in instances where exemptions were granted only a temporary basis, there was a tendency for these exemptions to become permanent due to the fact that there was normally no mechanism for reducing or eliminating these lists of excluded projects.

As a result of the existence of various forms of exemptions, the focus of industry efforts was to lobby their governments for continued protection rather than preparing themselves for more competition. Governments soon became fixated on the negotiation process, as opposed to devising methods for tariff reduction. Tariff cuts were frequently postponed, often to the point where it became impossible to comply with the agreement.

The most significant repercussion of low product coverage was that it prevented regional specialization, which is necessary to achieve economies of scale within a trade bloc. The preferable outcome from an efficiency and distribution standpoint is for trade diversion to be as small as possible, and this is accomplished when the most efficient firms produce goods for the region. However, specialization can only occur if countries that lose industries do not take actions to block the process.

Uneven Levels of Development and Inequitable Gains from Integration

Many developing country trade pacts failed in large part because there was not an equitable distribution of the costs and benefits resulting from integration. Certain categories of countries tended to gain disproportionately as a result of large economic disparities within regional groups. In general, the large, industrialized countries within Third World trade pacts benefited at the expense of smaller and less developed economies. New industries, which represented much of the gains of regional integration, tended to be set up where a significant industrial base already existed. As a result, the countries that were already relatively developed tended to become more so, while those that were not developed remained relatively unaffected. Ironically, the pattern of dependency, where a dominant center benefited from a weak periphery, was in many respects replicated within developing country trade blocs.

There were two important repercussions from the inequitable distribution of integration gains. In order to protect themselves against further harm, the smaller, less developed countries in many trade blocs frequently pressed for a reduction in both the scope and speed of tariff reductions. Because decisions about the terms of the integration treaties were frequently made according to consensus, the objections of the smaller countries had a significant negative impact on the scope of many agreements.

The second important ramification was that many regional blocs attempted to mollify the objection of the smaller countries by instituting special programs to assist them. It was hoped that reducing disparity within the group would promote intra-regional trade and also ensure the compliance of these smaller countries. The preferences extended to smaller countries included priority in regional development plans, precedence in regional infrastructural projects, additional time to eliminate tariffs, and priority in receiving investment funds from regional banks.

In practice, the positions of the smaller, less developed countries were not significantly advanced as a result of these assistance programs. In the end, the large countries proved to be largely unwilling to make any concessions to the smaller economies. As a result, the scope of the assistance programs proved to be minimal, with very few projects being advanced and those that did proceed normally had deficient funding. Significantly, however, the declaratory policies of many trade pacts continued to proclaim that the welfare of the less developed countries would be improved because of their

association with the regional pact. The lack of enthusiasm of many smaller countries towards regional integration can be at least partially attributed to the fostering of expectations that they would experience significant economic advancement as a result of assistance from the rest of the trade pact.

Military Rule and Regional Rivalries

A particularly important constraint upon regional integration in the Third World was the prevalence of military rule throughout the region during the 1960s and 1970s. Regional military leaders tended to have a particularly skewed view of foreign trade, and often promoted a relatively more closed economy on the grounds that domestic industries needed to be protected because their existence was crucial for national security. Military rulers did not want to be dependent on other countries, especially their neighbors, for crucial military supplies. While it is difficult to determine how many industries in the Third World were protected on this basis, it was a significant amount, especially in the area of heavy industry.

Trade with neighboring countries was often negatively affected to an even greater degree as military governments frequently played up regional tensions as a means of strengthening their legitimacy. The justification for military rule would be greatly reduced if there was no external security threat, hence cooperation of any sort was usually counterproductive to these governments. It is likely that military governments were particularly loathe to engage in integration because of the popularity of functionalism at this time. Functionalist theory contends that regional integration is a means of strengthening political ties in order to move beyond traditions of mutual suspicion. Functionalism regards dependence on other countries for important goods as an excellent means of preventing hostilities from occurring, as it highlights the benefits of cooperation between countries. Rather than encouraging perceptions of neighboring countries as partners, military leaders often actively sought to impede this from occurring and therefore shied away from regionalization.

Regional military tensions decreased not just the attractiveness but also the efficacy of economic integration efforts. For obvious reasons, it is very difficult to engage in economic integration with a country that is militarily threatening; as the process requires countries to make mutual concessions in order for the agreement to progress. In the examples of successful economic integration, the respective members were not suspicious of each other, as all the potential security problems were outside of these economic groupings. In contrast, history is replete with examples where economic integration has failed because significant security tensions have existed between the members of trade blocs. This trend was particularly evident within Latin America, as all the efforts at economic integration in the 1960s and 1970s were fettered by regional rivalries. The Central American Common Market (CACM) is the most prominent example, as the group's relative success was completely curtailed by the Soccer War in 1969 between

Honduras and El Salvador. Within the Andean Pact, regional cooperation was hindered by rivalries between Peru and Ecuador, who engaged in armed conflict in 1941, as well as Chile's disputes with both Bolivia and Peru, which date back to the 1879-84 War of the Pacific. Progress in the Latin American Free Trade Association was restricted by quarrels between Chile with both Argentina and Brazil, and between the latter two countries themselves. Outside of Latin America, there existed great suspicion between many of members of ASEAN, despite seeming uniformity over the Vietnam War. Within the Arab Common Market, tensions existed between Syria and both Iraq and the United Arab Emirates. Military tensions between Ghana and Togo and also Liberia and Sierra Leone significantly constrained the implemenation of ECOWAS.

Non-Tariff Barriers

A significant shortcoming with most Third World trade pacts was that there was insufficient attention paid to the problems posed by non-tariff barriers (NTBs). With the exception of the Andean Pact, no serious effort was made to reduce informal barriers to trade, and this omission significantly vitiated liberalization efforts. In a number of trade pacts, such as the Central American Common Market, progress in reducing tariffs had little effect largely because informal barriers to trade were enacted by countries as a replacement.

Given the large role of central governments in the economies of the Third World at this time, the lack of treatment of both government purchasing and export promotion policies was an especially important deficiency. As a result, more efficient industries in one country often were at a comparative disadvantage in relation to less efficient industries in another country which received substantial governmental assistance. Such policies caused the distribution of benefits from integration to be skewed, reduced international competitiveness, and caused a drain on public resources in those countries which engaged in significant subsidization.

While the Andean Pact aggressively dealt with this issue, the group nevertheless ran into significant problems. While NTBs were officially banned, the definition of what constituted an NTB was not broad enough to remove all impediments to trade within the region. As a result, "in practice several procedures still served to subvert the purposes of the program; state trading, customs clearing requirements, import documentation of identification of origin."[73] Efforts to remove NTBs were further hampered by the fact that no enforcement mechanism were built into the agreement in this area.

High and Divergent Tariff Structures

A significant hamper on Third World integration was the fact that the tariff structures of countries within each

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[73]Kuczyinski, M. and D. Huelin. 1973. The Andean Group: Trade, Industry and Foreign Investment. London: Latin American Publications Fund, p. 8.

bloc tended to be both high and also greatly divergent at the outstet of integration efforts. The high level of protection was largely because most countries were pursuing import substitution strategies at this time. The divergence of tariff protection was the result of both different factor endowments and also varying choices about which industries to protect caused by differing political and economic philosophies. These high and divergent tariff structures had negative effects upon the efficacy of integration efforts for three important reasons.

High tariff rates were a significant cause of the low level of intra-regional trade that existed before integration efforts began. While the lack of trade between Third World countries was due to a number of reasons, including similar factor endowments and the legacy of colonial trade patterns, high levels of protection were an extremely important element. As a result, very few Third World trade pacts had much intra-regional trade upon which to build. In the Andean Pact, for example, intra-regional exports accounted for a mere 2% of the region's total exports. Only in ASEAN and the CACM did intra-regional exports account for more than 10% of the region's total exports.[74] The limited scope of intra-regional trade made creating new linkages much more difficult and also caused the level of trade diversion to be much higher.

High and divergent tariff structures were also harmful to integration efforts because they led to the creation of vested interests. Many significant industries in developing countries were capable of surviving only so long as they were protected from foreign competition. As a result, these industries tended to put up strong resistance when faced with the prospect of reduced intra-regional tariffs. Efforts at regional tariff reduction therefore tended to be centered either in those industries which were subject to relatively few barriers before integration began or industries which were not produced within the region.

Perhaps the most important repercussion of divergent tariff structures, however, was that it made the establishment of a common external tariff extremely difficult. While most of Third World integration efforts included provisions for the establishment of a common external tariff, practically none of the deadlines were met. In several trade blocs, notably the ASEAN PTA and LAFTA, establishing a common level of protection was not even advanced as a policy goal. The lack of a common external tariff resulted in a number of significant inefficiencies. Countries with high tariff levels on intermediate goods and primary products became far less competitive within their respective group, as their final products had higher costs. Tariffs on intermediate goods and primary products also affected the distribution of foreign investment, as multinational corporations (MNCs) preferred to set up in low tariff countries. Trade flows were further distorted because tariff disparities promoted smuggling. Intra-regional trade was also reduced as a result of higher administrative requirements.

[74]IMF, Direction of Trade Statistics

Regional Infrastructure Development

A key feature of many Third World integration schemes was the promotion of regional infrastructure development. Improving the ease of intra-regional communication and transportation was correctly identified as being especially important for making regional integration successful. At this time, it was actually far easier for many developing countries to ship goods to and communicate with countries in Europe or North America than it was within their region. In order to promote linkages within the region, many trade pacts established regional banks in order to fund regional infrastructure projects.

While many regional trade pacts designed a number of impressive infrastructure projects, very little tangible benefits were achieved. For the most part, infrastructure plans failed to have a significant impact because of disputes between members over which projects were appropriate. There were substantial disagreements arising from the fear of participating countries that they would not receive their share of benefits. As a result of these fears, members began to ignore the regional projects, and instead focused on domestic priorities.[75] Due to these parochial attitudes, infrastructural links hardly improved, and integration efforts were concomitantly hampered.

Regional Economic Planning

Reducing regional tariffs was seen by many policy makers in the developing world as a vital economic tool, but one that was probably incapable of producing dynamic changes all by itself. It was argued that tariff reductions could have positive effects only if they were conducted within an appropriate economic environment. Consequently, many policy makers identified the need for some degree of regional economic planning. Regional development plans and macro-economic coordination were the two principal forms of regional economic planning that were articulated.

One of the most interesting features of many Third World trade pacts was the process whereby countries were assigned regional monopolies in certain products. Rather than establishing industries according to comparative advantage, industries were selected according to an administrative process. Typically, the first step consisted of technical experts undertaking feasibility studies and then making recommendations as to which industries should locate in what countries. These recommendations were then normally forwarded to a regional decision-making body, whose allocation decision was then binding over the member states.[76]

Thse regional development schemes made Third World integration

[75]Fontaine, Roger W. The Andean Pact: A Political Analysis. The Center for Strategic and International Studies. 1977. pp. 26-27.

[76]The technical experts were officially called the junta, while the committee which ultimately apportioned industries was the Commission. Countries not awarded an industry were still allowed to produce that good, but faced the tariff rates that existed before the agreement came into being.

much more difficult to accomplish, however. Joseph Nye argues that this form of regional planning "involves a much higher and deliberate sacrifice of sovereignty than unplanned market integration does."[77] As part of this process, it frequently became necessary for representatives to vote on plans which, if implemented, would lead to substantial economic dislocations in their respective country. The greatest obstacle to trade liberalization is always that opening up markets invariably leads to substantial displacements. This form of regional planning ensured that a majority of countries within a trade bloc would lose a certain industrial sector in order for it to prosper in a single country. Because the loss of industries could so easily be attributed to particular votes by countries, assigning regional industries became an extremely onerous political process.

Macro-economic coordination was the second form of regional planning that was advocated, and there were a number of important arguments for making it a central element of the regional integration process. Without such coordination, domestic criteria would dominate decisions regarding monetary, fiscal, and most importantly exchange rate policies, and there would be little or no consideration of the negative consequences of particular policies on other countries within the group. This would lead to frequent changes in comparative advantage within trade blocs that were not the result of efficiency dynamics, but were instead caused by fluctuating domestic economic policies. The ensuing uncertainty caused by unstable inflation and exchange rates would significantly constrain integration efforts.

Despite the pressing rationale for macro-economic coordination, enacting common policies proved to be an elusive goal for developing country integration schemes during this period. The inability to coordinate policies was largely the result of the legacy of import substitution. Because countries were reliant upon importing most of the capital goods that were necessary for industrialization, there was a tendency for governments to appreciate the value of their currencies. In addition, many countries during this period ran expansionary monetary and fiscal policies as a means of spurring economic activity. Because most countries were therefore pursuing targeted macro-economic policies to promote the development of domestic industries, there was consequently a great reluctance to modify these policies in favor of the interests of the region.

Factors That Have Led to a Resurgence in Developing Country Regional Integration Efforts in the 1990s

International Economic Environment

In December 1990, the Uruguay round of the GATT negotiations reached an impasse due to a dispute between the

[77] Nye, Joseph S., Jr. Comparing Common Markets: A Revised Neo-Functionalist Model. International Organization, Autumn 1970, p. 834.

EC and the United States over agricultural subsidies. This deadlock was particularly upsetting to the Third World countries, as they hoped that a successful conclusion to the negotiations would bring an opening in global markets, especially in the area of agriculture. More important than the actual deadlock in negotiations, however, was that the United and the EC seemed to have decided to turn inwards in reaction to the stalemate. Soon afterwards, the Europeans pressed ahead with renewed vigor in their goal to establish a true common market by 1992. Similarly, the United States concluded negotiations with Mexico on forming the North American Free Trade Agreement (NAFTA).

At this time, it seemed to much of the developing world that the vast bulk of the developed world was abandoning its commitment to world-wide free trade in favor of regional free trade. The EC and NAFTA are threatening to developing countries for four principal reasons: 1) the reduction of exports as a result of trade diversion, 2) the diversion of foreign investment from the Third World to those trade blocs, 3) the difficulty of negotiating with such powerful groupings, and 4) negative repercussions for the international competitiveness of Third World exports. Each of these four factors are discussed below.

Reduced Access to US and EC

Because most developing countries engaged in import substitution for so long, their markets were relatively closed to each other. In Latin America, for instance, only 15% of trade was with other Latin American countries in 1990. As a result of Third World protectionism, the more open US and European markets became the primary destination for many developing countries' exports. In much of the Third World, there exists a new found awareness of the possibilities that exists in neighboring countries as a market for exports. Much of this increased appreciation is the result of the fear that the EC and NAFTA will become insular and will set up strict barriers to the imports of goods from outside each economic bloc.

The EC has already established a common external tariff, and NAFTA will not have one, so developing nations do not need to fear that their goods will face higher tariffs in these two economic blocs. Nevertheless, Third World exports to both Europe and North America could be reduced as a result of trade diversion, where trade shifts to within the bloc, replacing goods that were formerly imported from outside the bloc. Trade diversion occurs because there are no restrictions on intra-bloc trade while goods from outside the bloc still face tariffs and other trade barriers. In addition, increased regional consciousness will likely cause companies, as well as consumers, to become accustomed to searching for suppliers within the bloc to satisfy their demands.

The greatest fear of developing countries is that their exports into Canada and the United States will be replaced by goods from Mexico, since Mexico has very similar factor endowments to the rest of the Third World. Trade diversion will, of course, occur in Europe as well, since Portugal, Greece and to a lesser extent Spain, could play the same role in the EC

as Mexico will in NAFTA, that of being a low cost producer of labor-intensive goods. The wages in these countries are not nearly as low as in Mexico, however, so there is less to worry about trade diversion with regard to Europe than North America.

In addition to trade diversion, many Third World countries are also worried that the coalescing of the EC and NAFTA will lead to an increase in non-tariff barriers (NTBs) in these two regions.[78] Technical and environmental standards, even if they are not designed to discriminate against producers from outside the bloc, will likely improve the competitiveness of companies within the bloc. Third World companies could be hard pressed if they are required to substantially alter their production processes in order to comply with new regional standards.

While exports to Europe and North America may be reduced by trade diversion, the creation of regional blocs in the Third World could have the same effect on goods that the group is currently importing. It is hoped that trade creation within regional blocs will offset some of the losses of export markets in the industrialized world. Trade creation is extremely beneficial, since the increased trade will be in products that are made by either new or augmented industries within the bloc. As a result, loss of employment in export sectors to the EC and North America could be offset by an increase in goods produced within the bloc. There has been a tremendous amount of trade creation within the EC over the years, a phenomenon which will likely be duplicated within NAFTA. This increase in intra-regional trade through the creation of new export markets is a process which many Third World countries wish to emulate.

Foreign Investment

In the past, many Third World countries were hostile or ambivalent to foreign investment, and held that multi-national corporations (MNCs) needed to be strictly controlled. Now, in contrast, the Mercosur countries see foreign investment as crucial to improve their economies, and regard the promise of a large, regional market as a means of attracting capital. Foreign investment is seen both as a source of capital for areas of the economy that are under-invested and as a means of spurring the growth of new, high value-added industries.[79] As an example of this new philosophy, Domingo Cavallo, Argentina's Economy Minister, stated that Argentina and many other developing countries "used to be isolated both from capital flows and trade and was always defiant about and dissatisfied with the ground rules in the world, but now it is behaving like a country that observes these rules."[80]

However, just at the time when foreign investment was being especially sought by many Third World countries, their ability to attract international capital was declining as a result of the formation of regional blocs in the industrialized

[78] Izam, M. "The Economic Effects of Europe 1992 on Latin America." Cepal Review, No. 43, April 1991, p. 76.

[79] Clarin, 2 December 1990, p. 12

[80] Clarin, 2 December 1990, p. 12

countries. Regional blocs are attractive to foreign investors because it is possible for a multinational corporation to set up a single production plant to serve all the countries within the bloc. Manufacturers can then produce a large quantity in their production facilities, thereby gaining the benefits of economies of scale and increasing profits. Currently, high tariff rates in much of the Third world make it difficult for MNCs to set up a single production plant to serve many different markets. In addition, the establishment of a common external tariff provides a strong inducement for a corporation to locate within a regional bloc such as the EC. As a result, many Third World countries feared that MNCs would view the EC and NAFTA as far more profitable places to invest, thereby draining potential sources of foreign investment away.

Regional integration is seen as an important mechanism to prevent this shift in foreign investment from occurring. Prime Minister Goh of Singapore captured this sentiment in his assertion that, "unless ASEAN can match the other regions in attractiveness both as a base for investments as well as a market for their products, investments by multinational companies are likely to flow away from our part of the world to Europe and NAFTA."[81] Domingo Cavallo similarly argues that "today, risk capital is invested in those countries that offer better conditions" and that "the ultimate objective of Latin American integration is to obtain investments for Latin American countries."[82] Prime Minister Chuan Leekpai of Thailand stated that "the possible diversion of direct foreign investment to emerging economic blocs...is a perpetual reminder that smaller countries have to unite to make themselves attractive to foreign investment."[83]

International Competitiveness

Many Third World countries regard membership in a regional trade bloc as being beneficial to maintaining their international competitiveness. There is great fear among developing countries that the competitiveness of products from the EC and NAFTA will improve as a result of intra-bloc competition. With no barriers to the transfer of goods within these blocs, companies which used to be protected by tariffs and other trade barriers will now be forced to compete with other companies from within the entire bloc. Consequently, only the most efficient producers in Europe and North America will survive the intra-bloc competition, while inefficient companies will fall by the wayside. Those companies that remain will in turn have a larger market share than they did before, because they will take over the markets of the companies which were forced out. As a result of having larger market share, the efficiency of these companies will be further enhanced, because they will now be able to produce utilizing economies of scale.

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81 Address to the ASEAN Singapore Summit

82 FBIS, 4 September 1990 (TELAM, 31 August 1990)

83 The Nation [Bangkok], January 30, 1992, p. B1

Goods from the Third World will therefore now have to compete with products from Europe and North America that will be much more competitive than goods from these two regions were earlier. One way for the Third World to offset this process would be to form a trade bloc of their own, to improve the region's international competitiveness in the same way as in Europe and North America.[84] Argentina, for instance, sees regional integration as a key element in its drive to become a successful global exporter. Domingo Cavallo has asserted that "in the international arena, the world economy is witnessing the creation of large economic blocs like in Europe, southeast Asia, and Northern America. The speed of such processes justifies the need to create a Latin American economic group with a market large enough to allow us to efficiently compete."[85] Similarly, President Goh of Singapore argued that "if we don't synergize our strengths, ASEAN will risk missing the boat. We will be stranded as we watch others sail by"[86]

Trade Negotiations

During the Uruguay round of GATT negotiations, many countries in the Third World felt relegated to the sidelines as major international actors such as the United States and the EC dominated the negotiations. Similarly, many developing countries felt disadvantaged when engaging in bilateral negotiations with large economic powers. In particular, the actions of the United States in the last few years, under the Super 301 provision of the Omnibus Trade Bill, have occasionally been a major source of irritation.

J.E. Meade argued in his classic work that one of the purposes of a customs union is to increase bargaining power vis-a-vis third parties, through presenting positions collectively, as a group, rather than as individual countries.[87] In the 1960s, developing countries did not regard it as worthwhile to try to alter the international economy so that it was more accommodating to their interests, but rather maintained the best policy was to avoid the international economy as much as possible. This was largely because they did not think that it was conceivable for developing countries to have any impact in international economic negotiations.[88]

In marked contrast, many developing countries currently view it as possible, albeit difficult, to negotiate with major actors in the international economy.[89] While they may not be able to

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[84]New York Times, 25 March 1991, p. B1. Celso Amorim stated that Latin America must adjust to "a world trend towards economies of scale. It's happening in Europe, the Far East, and North America."

[85]O Estado de Sao Paulo, 28 January 1990, p. 7

[86]Asian Wall Street Journal, January 28, 1992, p. 1.

[87]Meade, J. The Theory of Customs Unions. 1955. Amsterdam, North Holland Publishing Company.

[88]This attitude would change substantially a few years later, with the rise of the Group of 77 and the New International Economic Order (NIEO) during the 1970s.

[89]The current approach of countries towards affecting changes in the international economy is much less confrontational than the NIEO, however, in that they are not demanding direct cash transfers and other concessions from the industrialized world.

make substantial improvements, many countries at least want to ensure that the international situation relative to their economic interests does not deteriorate. Meade's conclusions have been echoed by some important policy makers in the Third World. President Suharto of Indonesia, in his opening statement at the Singapore summit, maintained it is necessary to "enhance intra-ASEAN economic cooperation to ensure that our role and interests are given greater attention." Domingo Cavallo of Argentina stated that negotiating as a group is the best means by which to successfully deal with "large economic spaces" such as the EC and NAFTA, since "our distance from the major centers and the weakness of our economies make it impossible for us to seek solutions individually."[90] President Rodriguez of Paraguay stated that: "In this world made up of huge economic blocs, Southern Cone countries must unite in keeping with the Treaty of Asuncion in order to have more bargaining power at international forums."

The Decline of Import Substitution and Reevaluation of Trade Policy

The second primary motivation for regional integration in the 1990s is that it is seen as a mechanism to overcome structural economic problems. In the 1960s and 1970s, integration was pursued in order to strengthen import substitution, which was a government sponsored economic policy. Governments directly sought to alter the economy to foster prosperity, thereby politicizing the integration process, as well as subjecting it to substantial governmental review. Currently, however, many Third World governments recognize that it is not their governments which will promote economic dynamism, rather it is their private sectors.[91] There is now general consensus that import substitution has become a significant constraint on economic growth, as it has led to the development of highly inefficient industries. Such industries distort prices, complicate the implementation of economic plans and make the industrial structure much less capable of dynamic changes. The unpopularity of these wasteful enterprises is also a reflection of the increased emphasis on fiscal discipline as a means of promoting development. Inefficient companies are a drain on public resources, which not only takes money away from other projects but also leads to substantial budgetary deficits, a primary cause of inflation. As a result, a prime policy goal within the developing is to make these industries much more efficient, and the best method seen to achieve this goal was to inject more competition into the region's economies.

The fundamental question was how intense this external competition needed to be. In the end, most developing countries chose to not unilaterally open up to the rest of the world, as Chile did in the 1970s. Chile's open market policies were seen as

90 Gazeta Mercantil, 10 May 1991, p. 1,6

91 FBIS, 11 April 1991 (Telam, 10 Apr) Domingo Cavallo stated that decisions about economic growth "are decided by private businessmen while government just creates an atmosphere of legal security and economic stability to allow profiting from opportunities."

too extreme by many policy makers.[92] While Chile is now the success story of Latin America, that country's strong economic performance was achieved at substantial cost, as unilateral tariff reductions led to significant dislocations. From 1973 to 1990, the number of poor in Chile doubled to nearly 43% of the population as a result of the country's open market policies.[93]

A more moderate course than unilateral tariff reductions was to engage in regional integration. Since the competition from other developing countries within a trade bloc is not as stiff as from the rest of the world, becoming competitive within the bloc was seen as being less disruptive than unilateral tariff reductions would be. Ironically, whereas regional economic integration was once used to promote import substitution, now it is touted as mechanism to move in exactly the opposite direction -- the promotion of exports. Many Third World countries hope that regional integration can be a stepping to stone to inserting themselves more forcefully into the world economy. According to Domingo Cavallo, Argentina's Minister of the Economy, Mercosur is engaging in integration "not to isolate ourselves but to be prepared for an opening and integration with the world economy."[94] Policy makers are optimistic that the efficiency of the Third World economies will be improved through promoting the growth of new industries and the strengthening of older industries that take advantage of the increased market size of the region. After engaging in competition and specialization within the group, it is hoped that the economies will be in a more favorable position with the rest of the world.

The need for efficient industries is also a reflection of a desire to emulate the success of the newly industrialized countries (NICs) in Asia, which have made substantial improvements in their standard of living by exporting manufactured products to the rest of the world.[95] Carlos Menem, President of Argentina, stated that "We cannot develop our region if we turn our backs to the world around us. I am not afraid to say that an appropriate international economic insertion into the world economy is essential for our own economic development."[96] While many countries that advocate regional integration, such as Brazil and Singapore, are already significant global exporters, it is hoped that the integration process will make their companies even more internationally competitive.

Finally, the willingness to engage in economic integration is also a reflection of a markedly changed attitude towards the formation of trade policy. Until recently, many trade policies in the Third World had been designed primarily for

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[92]Cohen, Roger. "All Latins Should Try Chile's Homemade Growth Recipe." Wall Street Journal, September 30, 1988, p. 27.

[93]Ford, Peter. "Chile Struggles to Lift Burden of Pinocet Years." Christian Science Monitor, February 18, 1992, p.7.

[94]FBIS- May 31 1990- (from Telam, 27 May)

[95]Haggard, Stephen. Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries. 1986. Ithaca: Cornell University Press.

[96]FBIS, 1 April 1991 (Asuncion Red Nacional de Television 26 Mar)

macroeconomic reasons.[97] Trade was viewed statically, in that policy makers looked at the level of trade that existed at one moment and examined how this level of trade could be best manipulated to achieve other economic goals. In the past, when faced with balance of payments difficulties, the main course of action had been to limit imports. For instance, in the early 1970s, in order promote the balance of payments in the face of the first energy crisis, Brazil raised tariffs, eventually to prohibitive levels, on imports that it designated as "superfluous." Now, however, there has been a substantial change of thinking and this method of preventing a foreign exchange crisis is now regarded as having been a drain on the Third World's development. Trade is now seen less as a way of promoting domestic economic stability than as something that is important in itself. Recognizing that programs which limited imports led to highly inefficient companies, Third World policy makers now prefer to increase exports in order to earn more foreign exchange and improve the balance of payments.

Developing Country Integration Efforts Initiated in the 1990s

In response to the rise of economic regionalism in the industrialized world and the concurrent need to move away from import substitution, there have been a large number of Third World regional integration arrangements initiated in the 1990s. This section will provide a very brief description of the range of integration efforts that have emerged.

The integration schemes that have been proposed among Third World countries can be classified into three basic categories. The first set of integration agreements consists of those trade blocs which have so far made substantial progress in reducing tariff barriers, namely the ASEAN Free Trade Agreement and the Southern Cone Common Market (Mercosur). The second group of trade blocs is made up of several integration agreement which include both developing and industrialized countries. None of these agreements have made any substantial progress towards reducing trade barriers, however, and two of them are actually not much more than proposals. The third set of agreements is distinguished from the second group in that all of the members of these proposed trade blocs are developing countries. Some of these groups are not new, but are instead attempts to reinvigorate older integration attempts, such as the Andean Pact, CARICOM and the Central American Common Market, which failed in the 1960s and 1970s. As with the second group, the trade blocs which comprise this third set have also not progressed very far beyond the negotiation stage. Each of the trade blocs within these three categories are briefly summarized below.

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[97]Coes, Donald V. Brazilian Trade Policy and Regional Trade Initiatives (unpublished), p. 30.

Third World Integration Agreements That Have Made Substantial Process

Mercosur

The governments of Brazil, Argentina, Paraguay and Uruguay on March 26, 1991 signed the Treaty of Asuncion, creating the Southern Cone Common Market (Mercosur). The aim of Mercosur is to create a regional common market by the end of 1994, encompassing more than 200 million people with an aggregate GDP of more than $500 billion.[98] Mercosur is a very substantial agreement, with the most far-reaching goals and the most concrete results so far of any regional integration plan in the Third World.

Mercosur aims to completely eliminate tariffs in less than three and a half years, using a graduated schedule of tariff reductions.[99] Tariffs on intra-regional trade were reduced by 47% on November 30, 1991 and are then to be reduced every six months afterwards, until all tariffs are reduced to zero by the end of 1994. Significantly, all the reduction deadlines have been met through April 1993, resulting in tariff cuts of 75%.[100]

Not all products within Mercosur were initially subject to tariff cuts, however, as each country was allowed to specify a number of industries that it wished to have to be exempted from the reduction program. These exemptions are only temporary, though, and are subject to their own reduction program. Argentina and Brazil are to reduce the list of industries granted exemptions by 20% per year, until all exemptions have been removed by the end of 1994. Paraguay and Uruguay will follow a similar schedule, but are given one extra year to eliminate their exemptions.[101]

To prevent the distortions that are caused by disparities in tariff levels, Mercosur also aims to establish in 1995 a common level of protection for goods originating outside of the group. The common external tariff will be 20% for most goods, and 35% for a smaller number of sensitive industries. Significantly, tariffs on this smaller list are scheduled to be reduced from 35% to 20% over the period 1995 to 2001.[102]

Under the Treaty of Asuncion's binational investment provision, firms with majority control by citizens of Mercosur will be treated as domestic industries in all four countries. Binational firms will therefore have access to official credit instruments, to government incentives or subsidies, and will compete equally with domestic firms for government contracts.[103] While this provision does not apply to firms with majority foreign control, Mercosur also established a relatively low local-content rule (50%) that should be a significant incentive for MNCs to invest in the region.

[98] Latin American Weekly Report, April 4, 1991, p. 1.

[99] Annex 1, Article 3 of the Treaty of Asuncion

[100] Latin American Regional Reports: Brazil. March 18, 1993, p. 6.

[101] Article 3 of the Treaty of Asuncion

[102] Latin American Regional Reports:Southern Cone Report. February 4, 1993, p. 4.

[103] Tavares, Jose. Mercosur and the Bush Initiative. (unpublished).

The Treaty of Asuncion also calls for coordination of fiscal and monetary policies, in order to minimize trade imbalances which are not the result of changes in comparative advantage. Unlike the other components of Mercosur, however, there has not been any effective progress in this area, and it will be difficult for this policy goal to be achieved in the foreseeable future.

ASEAN Free Trade Agreement

In January 1992, the leaders of the Association of Southeast Asian Nations (ASEAN) signed agreements which created the ASEAN Free Trade Area (AFTA). AFTA creates a trade area that aggregates the economies of Singapore, Thailand, Indonesia, Philippines, Malaysia and Brunei, which combined represent more than 330 million people and a GNP of over $300 billion dollars. AFTA aims to reduce tariffs to between 0 and 5% over the next fifteen years on all products currently traded in the region, with the exceptions of unprocessed agricultural goods and services. In total, the products included in the agreement account for 87% of ASEAN's total trade.

Tariffs will be reduced according to the CEPT (Common Effective Preferential Tariff) agreement. Beginning on January 1, 1993, tariffs on most CEPT products will be reduced to a maximum of 20% over the next five to eight years. After tariffs have been reduced to 20% or lower, over the next seven years they will be further reduced to 0-5% by the year 2008. Countries will be required to announce in advance the schedule that they will follow to meet both sets of tariff targets. Other quantitative restrictions, such as quotas, as well as non-tariff barriers, will also be eliminated under the agreement.

Fifteen sectors of products were placed on an accelerated schedule of tariff reduction under the CEPT. The fifteen sectors are: vegetable oils, cement, chemicals, pharmaceuticals, fertilizer, rubber products, leather products, pulp, textiles, ceramic and glass products, gems and jewelry, copper cathodes, electronics, wooden and rattan furniture. Tariffs on these products will be reduced below 5% within seven years if rates are presently less than 20%, and within 10 years if tariffs are currently above 20%.

A number of goods, accounting for approximately 6% of ASEAN's intra-regional trade, have been temporarily excluded from AFTA. After eight years, this list will be re-examined to determine whether those products still warrant exclusion from the agreement. AFTA only allows for exclusions at the sector level, which are broad categories encompassing many similar goods, rather than at the specific good level. Because it is more difficult to exclude entire sectors of goods than it is to exclude individual goods, it is hoped that this sector approach will keep most products within AFTA.

Apart from product exclusions which are agreed upon by all the countries, a country can also unilaterally cancel tariff reductions on products which "cause or threaten to cause serious injury" to domestic industries. The definition of "serious injury" and the length of time that products can be excluded under this clause are not delineated in the agreement. Importantly, under the "Six Minus X"

provision, if a country does decide to opt out of CEPT tariff reductions for a product because of '"serious injury," this will not in any way preclude other countries from lowering their tariffs on this product. If the rest of the ASEAN countries wish to have free trade in this product, then they can proceed with tariff reductions. In addition, states which wish to enter into bi- or multi-lateral tariff reduction agreements with other members will be permitted to do so.

In order to monitor the implementation of AFTA, the Secretary General of ASEAN will now be selected on merit rather than being rotated amongst the countries. The office itself has been imbued with much greater power and responsibility. Furthermore, the bureaucracy has been streamlined by reducing the number of committees which will oversee economic cooperation from five to one. The annual meeting of economic ministers in October will continue, and the leaders of ASEAN will now hold a summit every three years.

Recognizing that economic cooperation involves more than simply a reduction of tariffs, ASEAN requires states to increase cooperation in five areas: energy, transportation/communications, finance, trade and agriculture. In addition, the Framework Agreement requires states to increase cooperation in technology transfer, research and development, tourism, and human resource development. However, no specific measures for increasing cooperation in these areas were proposed in the Framework Agreement.

Economic Integration Proposals Involving both Third and First World Countries

Enterprise for the Americas Initiative

On June 27 1990, the President Bush announced the creation Enterprise for the American Initiative (EAI). The proposal contains three sub-components relating to trade, investment, and debt relief.[104] With regard to trade, the EAI proposes to create a free trade area encompassing the entire Western Hemisphere. In the second area, the EAI will create an investment fund for the region to promote the competitiveness of private business. This fund, initially valued at $1.5 billion, is to be administered by the Inter-American Development Bank. The third component proposes to write off a portion of Latin America's debt that is held by the US government. To qualify for this debt reduction, Latin American countries will be required to implement environmental protection programs.[105]

Many policy makers in Latin American felt that the debt-relief portion of the EAI was not substantial enough.[106] According to the initial terms of the proposal, only $5 billion of the $12 billion debt to the US government would be written off. This accounts for a mere 1.2%

[104] Porter, Roger B. "The Enterprise for the Americas Initiative: A New Approach to Economic Growth." Journal of Interamerican Studies and World Affairs, Winter 1990, p. 7.
[105] Sylvia Saborio. "Small Change: The Enterprise for the Americas Initiative Promises Official Debt Reduction." Latin Finance, No. 25, p. 22
[106] Interview with Maria Dakolias, World Bank, Sept. 17, 1992.

of the region's $423 billion external debt.[107] It is likely, therefore, that the debt-relief proposal was important only for its symbolic value, in that it demonstrated that the United States was trying to find new ways to deal with the debt problem.

Similarly, not much attention within Latin America was directed towards the investment fund element of the EAI. While the goals of the investment fund were lauded, the small size of the fund seemed to guarantee that its impact would be limited. In addition, the limited scope of the fund's activities, in that it is specifically targeted towards the promotion of certain kinds of private sector activity, was seen as insufficient to meet many of the region's most pressing demands. Both physical and human capital infrastructural improvements were to receive no assistance under the Bush administration's initial proposal.[108]

The portion of the proposal which has received the most attention is the idea of a hemispheric free trade area. Within Latin America, leaders rushed to offer strong endorsements of this proposal. Soon afterwards, numerous official conferences and meetings were sponsored by Latin governments in order to explore the ramifications of the proposal. Many Latin American governments, including Chile, Argentina, Colombia and Venezuela, offered strong pronouncements of their desire to become members of the EAI.[109]

Twenty nine Latin American countries have signed Framework Agreements with the United States to explore the possibility of joining the EAI.[110] To qualify for membership, countries must meet a number of criteria: 1. protection of intellectual property; 2. reduction of government subsidies; 3. elimination foreign exchange controls; 4. opening markets to service industries; and 5. reduction of barriers to foreign investment.[111] So far, the only country which has met the EAI's criteria is Chile. As a result, Chile has been negotiating with the United States on establishing a free trade area between those two countries.[112] However, a decision to proceed with Chile-US free trade has been put on hold until Mexico has formally been incorporated into NAFTA. Other countries that might meet the EAI's criteria at some point are Columbia, Venezuela, and Argentina.[113]

Interestingly, however, the United States has made clear that it hopes the EAI will promote the establishment of regional

[107] Saborio, p. 22

[108] Graham, Carol. "The Enterprise for the Americas Initiative: A Development Strategy for Latin America?" Brookings Review, vol. 9, no. 4 (Fall 1991.)

[109] Christian, Shirley. "Bush's Offer of Free Trade Gets Warm Latin Reception." New York Times, 26 August 1990, p. 15A.

[110] Sidney Weintraub. "Making Regionalism Work." Latin Finance, No. 25, p. 49

[111] de la Torre, Augusto and Margaret R. Kelly. Regional Trade Agreements. 1992. Washington: International Monetary Fund, p. 7.

[112] Goshko, John M. "Bush Picks Chile for Free-Trade Pact Negotiations." Washington Post, May 14, 1992, p.24.

[113] Interview with Randolph L. Mye, Regional Coordinator for Southern Cone Countries at the U.S. Department of Commerce. Conducted in Washington D.C. on 19 September, 1992.

integration schemes within Latin America. While the United States is willing to proceed with negotiations for incorporating Chile into the EAI, in many ways Chile is in a select category. For the remainder of Latin America, the US government has expressed a clear preference for negotiating with trade blocs rather than individual countries.[114] An example of this is the 'Four Plus One' agreement signed between the members of the Southern Cone Common Market (Mercosur) and the United States.[115] While the 'Four Plus One' agreement offers little more than vague platitudes such as "promoting free trade" and "increasing economic ties", it is symbolic of the approach that the United States wishes to take.

After making the proposal, the United States nevertheless assumed a very muted stance towards the EAI. While interest in Latin America for the proposal has remained high, very little was made of the proposal in the United States. Two reasons may account for U.S. ambivalence. First, the attention of U.S. policy makers has been focused on successfully concluding the negotiations to made Mexico party to the US-Canada Free Trade agreement. Second, the United States made this proposal at the height its conflict with the European Community in the GATT negotiations. It is very likely that EAI was proposed largely as a bargaining chip in the negotiations with the EC; as a means of demonstrating that the United States would not settle for an unsatisfactory conclusion to the Uruguay round. As a result, while the EAI could someday eventuate in a hemispheric free trade area, for the moment it is little more than a proposal.

East Asian Economic Caucus

On December 7, 1990, Prime Minister Mahathir of Malaysia proposed the East Asian Economic Grouping (EAEG). Mahathir envisioned the EAEG as a trade bloc which would include Japan, China, South Korea, Singapore, Thailand, Philippines, Malaysia, Brunei, Taiwan, Hong Kong and Indonesia.

Mahathir felt that if North America and Europe turned inwards and put up protectionist walls against Asian goods, that it would be necessary to find other markets for Asian goods. Mahathir saw the most logical replacement of the European and North American markets as being Asia itself. Despite the region's booming economies, intra-regional trade was still minor compared to the Europe or North America. Mahathir felt that the formation of a regional grouping would substantially boost trade within the region, possibly to the point of offsetting any loss of markets elsewhere in the world. Mahathir also felt that such a powerful and diversified economic grouping would have a strong bargaining position vis-à-vis the EEC and NAFTA, whereas separately each Asian country, even Japan, would have difficulty during negotiations with such powerful economies.

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[114] Interview with John Huenemann, Office of the United States Trade Representative. Interview conducted in Washington D.C. on 15 September 1992.

[115] Auerbach, Stuart. "US Signs Pact on South American Trade." Washington Post, 20 June 1991, p. 9.

Mahathir envisioned Japan as being the leader of the grouping. Because of Japan's vast foreign investments in the region and because of its massive financial wealth, he hoped that Tokyo would be able to play a role similar to Germany's in the EEC. With Japan's extremely prosperous citizens, Japan would also be a key market for Asian goods, hopefully reducing the region's reliance on the European and North American markets.

Mahathir's plan was endorsed by several Asian governments.[116] However, the United States strongly condemned the EAEG as an attempt to cut the United States off from Asia. The United States firmly renounced any trade bloc in Asia in which it was not included. As a result of American opposition, Japan did not support the group because it did not want to jeopardize trade relations with its most important trading partner. South Korea, the second largest economy in the EAEG, also did not endorse the group out of fear of provoking the ire of the United States. Other countries, such as Indonesia, disliked the confrontational tone of the EAEG and were afraid of anything which might jeopardize access to the massive American market.[117]

In October 1991, Mahathir decided to change the EAEG to the EAEC (East Asia Economic Caucus). Although the EAEG was originally envisaged as a trade bloc, Mahathir later changed his conception of the group's purpose to that of discussing regional trade issues and presenting a common front in international negotiations. The change in name from the EAEG to the EAEC was done in order to underline the fact that the group was no longer intended to be a trade bloc. Mahathir hoped that if the group was not seen as a trade bloc, the apprehensions of the US would be assuaged and Japan and South Korea would be able to endorse the idea.[118]

The US was still upset by the plan, however, even after the change to the EAEC. Consequently, Japan and South Korea still demurred from joining the group. Because of the reluctance of Japan to join the group, many other Asian countries were reluctant to endorse the proposal. While Mahathir continues to press ahead with the idea, it is unlikely that the agreement will proceed.[119]

North American Free Trade Agreement

In June 1990, the Presidents of Mexico and the United States agreed to begin negotiations on a free trade agreement between their two countries. The United States had previously initiated at free trade agreement with Canada in 1989. At first, it was thought that the US would have concurrent accords with Mexico and the Canada, but that these latter two countries would not have any direct agreement between them. One year later, however, Canada entered the negotiations between Mexico and the United States, in order to create a North American Free Trade Agreement (NAFTA). Such an accord would produce

[116] Asian Wall Street Journal, January 28, 1992, p. 1
[117] Asian Economic News [Kyodo], Jan. 20, 1992
[118] Asian Economic News, Jan. 24, 1992
[119] Far East Economic Review February 6, p. 10

a market of nearly 360 million people and a combined GNP of almost 6 trillion dollars.[120][121] The formal agreement was finally completed in August 1992, after nearly fourteen months of intense negotiations. In November 1993, after intense political struggle with Congress, President Clinton was successful in ratifying the agreement.

The agreement is extremely complex and comprises more than one thousand pages of text. The treaty aims for a free trade area to be implemented starting in 1994. Tariffs and other barriers to trade on both goods and services are scheduled to be eliminated over a fifteen year period. The treaty contained important provisions to resolve disputes between the group's members, protect intellectual property rights, deal with government procurement, and remove all impediments to investment. In response to substantial challenges by labor and environmental organizations, President Clinton vowed not to approve NAFTA until new safeguard agreements with Mexico were negotiated. These agreements seek to ensure that US workers are protected against significant displacements, that companies in Mexico do not have an advantage because of lax labor and safety laws, and that the environment, especially along the US-Mexican border, does not deteriorate as a result of the agreement. These agreements proved difficult to negotiate, however, and their combined impact was not capable of mollifying the agreement's critics.

[120] Far East Economic Review February 6, p. 10
[121] Latin American Weekly Report, March 11, 1993, p. 112.

Mexico saw access to the United States as a crucial element in its drive to reform its economy. Since his election, President Carlos Salinas de Gortari has undertaken a dramatic program to increase the efficiency of Mexico. He has pushed through a program of substantial privatization of state-owned industries, vast reductions in tariff rates, and the elimination of many barriers to foreign investment. In response, the government's fiscal deficit was improved tremendously, which led to a concomitant reduction in inflation rates. As a reward for Mexico's commitment to reform, the country was able to reschedule a substantial portion of its external debt. Salinas saw free trade with the United States as a means of furthering the development of manufactured goods suitable for export. Exports to the United States have comprised a substantial portion of the growth in the Mexican economy in recent years. As a result, about two-thirds of Mexico's exports are currently sent to the United States. Salinas also NAFTA as a means of attracting foreign investment which sought to take advantage of access to the US market.

Canada would not likely have pursued free trade with Mexico had the United States not pushed ahead with the concept. There is very little direct trade between these two countries, totaling a mere $2 billion in total trade during 1989.[122] Nevertheless, the Canadian government thought it was much more preferable to have a direct say in the negotiations, in order to try and influence

[122] Hufbauer and Schott, p. 4

any tariff reduction agreement into something more preferable to its interests.

The United States saw NAFTA as a means of consolidating the reforms that had occurred in Mexico in the last several years. In 1987, Mexican tariffs averaged more than 100%, whereas they are less than 20% today. That reduction has led to a huge increase in exports from the United States, from $12 billion in 1987 to $28 billion in 1992.[123]

Embryonic Integration Proposals Among Developing Countries

Andean Pact

In November 1991, the Andean Group decided to once again attempt to eliminate intra-regional tariffs. The fear of trade diversion caused by free trade between Mexico and the United States seems to have been the primary reason for the re-establishment of the trade pact. The group set the end of 1992 as the deadline establishment for a free trade area, and 1995 as the date for a common market. A common external tariff was to be implemented by Colombia, Peru and Venezuela in 1993, and Ecuador and Bolivia in 1995.[124]

Significant problems developed, however, over plans to enact the common external tariff. Bolivia and Peru argued for a very low level of protection, while the remaining members were in favor of a higher common tariff rate.[125] This dispute led to a disruption of progress on other matters, including exemption lists for tariff reductions, common customs procedures, and the problem of export subsidies.

Further difficulties developed as a result of the coup by Alberto Fujimori in Peru on April 5, 1992. Venezuela promptly severed all relations with Peru, in keeping with Venezuela's policy of not recognizing any government which is formed using unconstitutional means. In response, Peru protested Venezuela's decision by voting against all of the measures before the Andean Pact's June 17, 1992 meeting. As decisions in the Andean Pact are made by consensus, Peru's intransigence posed significant obstacles to implementing the group's goals. In August 1992, Peru decided to withdraw temporarily from the Andean Pact.[126]

Another problem with the Andean Pact concerns the status of Bolivia. It is very likely that Bolivia will leave the Andean Pact in order join the Southern Cone Common Market (Mercosur), since a far higher percentage of Bolivia's trade is with the members of Mercosur than the Andean Pact. Bolivia also hopes to benefit from the increase in infrastructure coordination that is occurring as a result of Mercosur.

The fracturing of the Andean Pact has heightened further by Venezuela and Colombia's bilateral decision to completely eliminate tariffs between them beginning

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123 Latin Finance, No. 35, p. 44

124 Kenneth N. Frankel and Thomas Vega-Byrnes. "Changing Focus: The Andean Pact Embraces Foreign Investment." Latin Finance, Vol. 35, p. 42

125 Latin America Weekly Report, January 14, 1993, p. 11.

126 Peru Blocs Andean Group's Great Leap. Latin American Weekly Report, June 235, 1992.

January 1992.[127] This decision made sense, as most of the trade within the Andean Pact is between these two countries. Venezuela and Colombia therefore seem to be splitting off from the rest of the group, especially in light of the formation of the Group of Three.[128] At this point, therefore, it does not seem likely that the Andean Pact will proceed.

Chile and Mexico

Chile and Mexico are currently pursuing very similar economic policies. Both have significantly reduced restrictions on imports into their economies, have a strong emphasis on fiscal discipline, and are at the vanguard in terms of promoting competition within their economies. As a result, it is not surprising that in September 1991 these two countries signed agreements to substantially reduce trade barriers between themselves.

According to the agreement, tariffs on approximately 90% of goods traded between the two countries are to be eliminated by 1995. Tariffs in another eight product areas, including petrochemicals, will be eliminated by 1998, and trade barriers on cars will start to be reduced in 1996. The agreement also called for the immediate elimination of all non-tariff barriers between the two countries. In addition, accords have been signed on harmonizing investment rules. Significantly, the agreement has already begun to be implemented. Implementation has proven to be relatively easy because as countries have already been reducing tariffs on a unilateral basis.[129]

It is significant that both of these countries are viewed very positively by the United States as trading partners. The United States has already concluded free trade negotiations with Mexico and has indicated that Chile is next in line for preferential trade status. As a result, it is not likely that the United States will directly negotiate with the Chile-Mexico trade pact. Nevertheless, a de facto free trade agreement could eventually between this bloc and the United States were individual treaties signed with both countries.

Caribbean Common Market

In 1990, the members of CARICOM agreed to once again attempt to establish a common market within the region. International events, most notably the United States' decision to enter into free trade negotiations with Mexico, seem to have been the main precipitating factor for the group's decision. A deadline of January 1, 1994 was set to accomplish the goal of eliminating barriers to trade within the region. In addition to the reduction of tariff barriers, the group aims to implement a common external tariff and eliminate all non-tariff barriers.[130]

The group even aimed to establish a common currency for the region by the

[127] Big Two Pre-Empt Andean Summit. Latin American Weekly Report, February 13, 1992.
[128] Frankel and Byrnes, p. 42

[129] de la Torre and Kelly, p. 10
[130] de la Torre, Augusto and Margaret R. Kelly. Regional Trade Agreements. 1992. Washington: International Monetary Fund, p. 10.

middle of 1992. Jamaica's decision to liberalize its exchange market made attempts to move in the direction of a common currency virtually impossible. As a result, the goal of a common currency was pushed ahead indefinitely.[131]

Some progress has been made on reducing tariffs and non-tariff barriers. However, progress on establishing a common external tariff has proven to be particularly elusive. Five of the countries in the group missed both the first and a subsequent deadline for reaching this goal. As a result, the 1994 target of establishing a common market is highly unlikely.

Central American Common Market

In June 1990, the Central American Common Market (CACM) renewed their efforts to reduce barriers to trade within the region. The group's goal was to implement a free trade area by the end of 1992. The group's rebirth was made possible largely because there were no longer any substantial political barriers to integration, as relations between Honduras and El Salvador had improved and the rule of the Sandinistas had ended in Nicaragua. The group's membership was expanded, as Panama was added to the five original countries within the agreement.

After the impasse in the GATT negotiations, the six members began to draw up plans for establishing a common market.[132] In June 1992, the group was able to decide upon regulations with respect to rules of origin and a common customs form was agreed upon. However, the timetable for reducing tariffs on intra-regional trade was delayed and the group failed to reach any agreement on a common external tariff.[133] In general, El Salvador, Guatemala and Honduras have been more eager to engage in liberalization than the remaining three countries in the group.

Despite the difficulties of achieving free trade within their own region, the members of CACM decided in February 1992 to begin discussions with the members of CARICOM, in hopes of forming a larger, Caribbean Basin free trade agreement. Belize, which is a member of CARICOM, now attends all of the meetings of CACM as an observer, and may end up as the link between these two trade groups.[134]

Columbia, Mexico and Venezuela

The two most prosperous members of the Andean Pact, Columbia and Venezuela, decided to initiate negotiations with Mexico in early 1989 towards forming a free trade agreement. Subsequent negotiations proved successful, and the so-called Group of Three was initiated.[135] The original goal was to create a free trade

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[131] Caricom Gets Stuck Over Common Tariff. Latin American Regional Reports: Special Report: Free Trade and Common Markets, June 1992.

[132] de la Torre and Kelly, pp. 7, 10.

[133] Latin American Regional Reports: Special Report: Free Trade and Common Markets, June 1992.

[134] Latin American Regional Reports: Special Report: Free Trade and Common Markets, June 1992.

[135] Step Backwards on Common Tariff. Latin American Weekly Report, January 9, 1992.

between the three countries by the end of 1993.

Significantly, Mexico and Venezuela already cooperate extensively on energy issues. Both are parties to the San Jose agreement, which assists Caribbean Basin countries in purchasing petroleum. Growing out of cooperation in this area, the three countries initiated an ambitious plan for linking the region with gas pipelines.[136]

The 1993 goal of creating a free trade agreement was postponed, however, because of severe political problems in Venezuela, including two coup attempts. In addition, Columbia decided to transform its trade policy, which diverted attention in that country away from the Group of Three. Nevertheless, the prospect of a free trade area being formed between these three countries appears promising, largely because they have very consonant views on trade and investment issues and they are also at similar levels of development.

Because Columbia and Venezuela are members of the Andean Pact, negotiations were conducted on making the Group of Three compatible with the Andean Pact. In the end, Mexico agreed that any tariff concessions that it granted to these two countries it would also extend to the remaining members of the Andean Pact. As a result, should the Andean Pact proceed, then a de facto free trade agreement could come to exist between that agreement's members and Mexico.[137]

Evaluating Mercosur and AFTA

Mercosur and AFTA are the only two developing country integration efforts that are worthwhile assessing at this juncture, as they are the most advanced in terms of both their structures and results achieved so far. In addition to being the farthest along, Mercosur and AFTA are also the two largest Third World trade pacts, and therefore have the most significance to the global economy.

In this section, both Mercosur and AFTA will be evaluated according to how successfully they have avoided each of the underlying structural deficiencies that were identified as having led to the downfall of integration efforts during the 1960s and 1970s.

Product Coverage and the Process of Tariff Reductions & Exemptions

Mercosur

With respect to product coverage, Mercosur is superior to previous Third World integration efforts. Instead of having tariff cuts only on certain products, the reductions in Mercosur are being conducted across the board. In addition,

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[136] Delayed Startup for Northern Axis. Latin American Regional Reports: Special Report: Free Trade and Common Markets, June 1992.

[137] Latin American Regional Reports: Special Report: Free Trade and Common Markets, June 1992.

rather than basing reductions on periodic negotiations, Mercosur includes a "gradual, direct and automatic program" for the complete elimination of tariffs.[138] The moment the treaty was put into practice, tariffs were reduced by 47 per cent They will be reduced by 7 per cent every six months afterwards, until all tariffs are reduced to zero by the end of 1994. It is highly advantageous to prevent countries from designing their own program of tariff cuts, as it greatly reduces the political difficulties of reductions. Because countries and firms in Mercosur know that delays will not be granted, they have focused their efforts on complying with the reduction targets rather than lobbying to avoid them. Significantly, there have been no delays in the tariff reduction program through April 1993.

Equally significant is the fact that all exemptions to the tariff reduction process within Mercosur have been granted only temporarily. At the outset of the Treaty of Asuncion, each country established a list of industries that would not immediately be subject to tariff cuts. In order to ensure that these exemptions are only temporary, the lists of products are subject to their own reduction program. Argentina and Brazil are to reduce the list of industries granted exemptions by 20% per year, until all exemptions have been removed by the end of 1994. Paraguay and Uruguay will follow a similar schedule, but have until 1995 to completely reduce their lists of exempted products. Each of the targets for reducing exemption lists have been achieved by all of the four countries.

[138]Annex 1, Article 3 of the Treaty of Asuncion

AFTA

Product coverage within ASEAN is less ambitious than within Mercosur, but it is still an improvement upon previous Third World integration efforts. In total, over 38,308 products are currently scheduled for tariff reductions, encompassing 87% of ASEAN's total trade. Only 7% of ASEAN's trade, namely services and unprocessed agricultural goods, were permanently excluded from tariff reductions. An additional 3,839 items, accounting for 6% of ASEAN's trade, were temporarily excluded from the agreement. However, this temporary list will be reviewed after eight years, to determine whether these products still warrant exclusion from the agreement. Significantly, fifteen sectors of goods were selected for accelerated tariff reductions under the CEPT. The amount of intra-regional trade in these fifteen sectors accounts for 24.7% of ASEAN's total intra-regional trade. Thus, even if AFTA were to go no further than this accelerated list, a very large amount of trade will have been liberalized.

Product coverage was also immeasurably improved as a result of the "6 minus X" provision in the Framework Agreement. In ASEAN's previous attempt at increasing intra-regional trade, the Preferential Tariff Agreement (PTA), decisions about which products to include in the agreement were made by consensus. Consequently, if one country strenuously objected to a certain product being included in the agreement, that one country could normally prevent all the

other ASEAN countries from reaping the benefits of freer trade in that particular product. ASEAN's leaders recognized that using consensus to determine which products were included in the agreement was a severe hindrance to reducing barriers on intra-regional trade. Consequently, under the "Six Minus X" provision, member states can opt out of reducing tariffs on a particular product if they are not yet ready. However, in opting out of reducing tariffs on that product, this will not preclude other countries from lowering their tariffs on this product.

In addition to the positive characteristics mentioned above, there are a number of significant problems with AFTA's tariff reduction program, however. In marked contrast to Mercosur, AFTA does not have a fixed schedule of tariff reductions. Instead, ASEAN countries are free to set their own tariff reduction program.[139] Because the tariff deadlines within AFTA are so far in the future, there is great danger that countries will delay reductions. The risk that countries will fail to reduce tariffs enough is particularly strong because there is no supra-national authority with binding power. While the ministerial-level Council is responsible for monitoring whether countries are complying with the agreement's terms, it does not have any powers of enforcement. Richard Lipsey argues that the combination of no fixed schedule of tariff reduction and AFTA's lack of enforcement means "there would seem to be little to prevent individual ASEAN countries from delaying tariff cuts if they chose to."[140]

Probably the most damaging clause within AFTA is that which allows members to keep tariffs at their current levels on products whose importation causes or threatens to cause "serious injury" to domestic industries. A significant deficiency of the agreement is that there is no definition as to what constitutes "serious injury". In addition, allowing countries to forego tariff reductions on items merely where they fear "serious injury" is also a major problem, since exemptions would be extremely easy to justify. Furthermore, there is no limit to the number of products that countries can unilaterally exclude in this manner. The Malaysian government has supposedly compiled a list of thousands of products that firms in Malaysia wish to be excluded from AFTA. In an extreme reaction, a Filipino commission studying AFTA has recommended that the Manila government reverse the exclusion process, by listing products to be included in AFTA rather than outlining products to be excluded from the agreement.[141]

A key question will be whether countries will be allowed to keep tariffs on products which cause "serious injury" indefinitely, or whether it will be a temporary exclusion which will merely give extra time for readjustment of extremely sensitive industries. Once exclusions have been established, there will be tremendous political pressure for them to be maintained. If ASEAN does not take a very firm stance on the question of exclusions, then the agreement will not progress expeditiously.

[139] Straits Times, January 13, 1993, p. 36

[140] Business Times, January 13, 1993, p. 3

[141] Inter Press Service [Manila], July 20, 1992

Uneven Levels of Development and Inequitable Gains from Integration

Mercosur

Within Mercosur, there is a clear bifurcation between the large, industrialized economies of Brazil and Argentina and the vastly smaller and less competitive economies of Uruguay and Paraguay. As will be seen, however, this differential will not likely have a deleterious effect upon the progress of Mercosur, as these two smaller countries joined Mercosur with a vastly different set of expectations compared to the less developed countries that were members of integration efforts in the 1960s and 1970s.

A large portion of Uruguay's economy consists of industries that have grown uncompetitive behind high protectionist barriers. Consequently, the government was not very keen about opening up its market to imports from Brazil and Argentina, as this could lead to severe dislocations. Before the creation of Mercosur, Uruguay had substantial trade agreements with both Argentina and Brazil, guaranteeing virtually free access to these two markets, and did not therefore see any need to engage in liberalization with these two countries.[142] However, the seriousness of the approach towards integration pursued by Argentina and Brazil caused the Uruguayan government to fear that if an agreement was concluded, that the bilateral treaties that it had with the two countries would be greatly vitiated, if not actually superseded, thereby imperiling access to these two crucial markets, which account for 33% of Uruguay's external trade.[143]

The Paraguayan government felt similarly threatened that any preferential access that it had would be greatly diluted were Argentina and Brazil to proceed with bilateral liberalization efforts. This was of substantial concern, since nearly 53% of Paraguay's trade is with these two countries. While Paraguay did not especially want to have its economy become more specialized at this time, the decision to join Mercosur was relatively easy, since it has had a de facto open economy for some time. Even though Paraguay's ostensible tariffs were until recently very high, rampant smuggling into the economy meant that there were in practice no real barriers to imports, which ensured that no industries developed behind huge protectionist walls. Most of the industries within Paraguay are therefore a reflection of its natural comparative advantages. Thus, it will likely not face substantial adjustment costs as Uruguay does, and might actually benefit from increased access to larger markets.[144]

No significant programs will be implemented to assist Paraguay and Uruguay. Both countries were given an extra year to comply with the tariff reduction program and were allowed to

[142]With Argentina, Uruguay had the CAUCE (Argentine-Uruguayan Convention for Economic Cooperation), which essentially exempted Uruguayan products from all barriers into the Argentinian market. Similarly, Uruguay signed the PEC (Commercial Expansion Program), which enabled extremely preferential access to the Brazilian market.

[143]Inter-American Development Bank

[144]Interview with Maria Dakolias, World Bank.

have a much larger list of temporary exemptions from tariff reductions.[145] In comparison to previous integration efforts, however, the special treatment accorded Paraguay and Uruguay is much less extensive, as there are no special funds or programs to assist their development.

Mercosur's lack of specific aid to these countries should be seen as an important strength of the agreement. Paraguay and Uruguay are not expecting their economic plight to improve because of economic assistance from the more developed members of Mercosur. As a result, these two countries will be much more likely to adapt their economies to regional integration rather than wait for preferences. In addition, the role of the state in the economies of Paraguay and Uruguay is diminished relative to the past. Consequently, these countries do not require as much direct government aid, as a substantial amount of assistance can be provided through private capital markets directly to businessmen rather than through the government.

It would appear, therefore, that Uruguay and Paraguay are proceeding with Mercosur largely for defensive reasons. They do not expect marked improvements in trade as a result of integration, rather they felt that if they did not proceed with the agreement that they would lose some of the current trade. As a result, Mercosur will likely not suffer the same fate as many previous integration efforts, where the smaller, less developed countries became resentful due to insufficient benefits from integration.

Because of the circumstances under which they joined, Paraguay and Uruguay will probably not attempt to delay Mercosur's implementation even if they do not gain substantially from the agreement.

AFTA

Like Mercosur, the members of AFTA are at different stages of economic competitiveness. Malaysia, Singapore and Thailand have grown rapidly in the last decade, and now have the ability to manufacture a wide range of goods which are very competitive internationally. Brunei has not yet experienced spectacular growth, but does not fear the effects of foreign competition because of its high level of income from oil exports. Indonesia has grown rapidly in the last few years as well, but its goods are not as competitive as in these first three countries. The Philippines, in contrast to the rest of ASEAN, is economically stagnant and its industries are very uncompetitive. In marked contrast to Mercosur, this disparity in competitiveness threatens to have a significant negative impact on the scope and speed of liberalization efforts.

Malaysia, Singapore, Thailand, and Brunei are all in favor of quick implementation of AFTA. Singapore and Brunei have everything to gain from AFTA, since their markets are already predominantly open. Malaysia is eager for AFTA because its industries are competitive. Malaysia already sends 24% of its exports to ASEAN countries, a number which it hopes can grow even larger. Thailand has a number of export industries that are very competitive, and

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[145] Articles 6 and 7 of Annex 1 of the Treaty of Asuncion

therefore has much to gain as a result of lower tariffs within ASEAN.

In contrast to these first four countries, Indonesia is fearful of AFTA, and was the main force in lengthening the implementation of the agreement from 10 to 15 years. Indonesia, which has by far the largest market in the group, was afraid that it would be deluged by imports from other ASEAN countries which were more economically advanced. Indonesia's recent economic growth has been based on exports, but not to other countries within ASEAN. Indonesia sends only 10.8% of its exports to other ASEAN countries, which is the second lowest percentage in the group. As a result, Indonesia feels that they have much to lose by AFTA, and pushed for the adoption of the clause which allows countries to stop tariff liberalization of products whose importation causes "serious injury" to domestic industries.

The Philippines has even greater concerns about AFTA than Indonesia. The Filipino economy is by far the weakest in the group, and its goods are the least competitive. Protected behind very high tariffs, many Filipino industries have become very bloated. The Philippines exports only 5.3% of its exports to ASEAN countries, by far the lowest percentage of any ASEAN country. Like Indonesia, it fears that its inefficient domestic industries will be overwhelmed by foreign competition. Because its political situation is far less stable than in Indonesia, it is likely that the Filipino government will respond to the political pressure from industries which will suffer as a result of lower tariffs. Consequently, the Philippines will probably be the country which exerts the most braking power on AFTA.

ASEAN has not yet been implemented any program for assisting the relatively less competitive members of AFTA. Nevertheless, the position of Indonesia and the Philippines suggests that the continued implementation of the agreement may become contingent upon assurances that they will not suffer egregiously as a result of their membership in AFTA. Anticipating this development, the Sultan of Brunei has in fact proposed that their should be sharing of the costs and benefits of AFTA in light of the differences in the levels of development within ASEAN.[146] The experiences of previous integration efforts indicate that ASEAN would be wise not to inappropriately raise the expectations of their less prosperous members through promises of regional assistance.

High and Divergent Tariff Structures

Mercosur

In the last few years, tariffs within all of the Mercosur countries have been declining, helping to reduce the factors inhibiting integration which are associated with high, divergent tariff schedules. Argentina substantially reduced its tariff rates in April, 1991. The Argentinian government replaced its previous, complicated tariff structure with a simple, three-tiered plan; finished goods will have tariff rates of 22%, intermediate goods will be at 11%, and foods and inputs that are

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[146] Bernama, January 27, 1992.

not produced in Argentina will not face any tariffs whatsoever.[147] As a result, Argentinian tariff rates are now less than 10% on average. Soon after Argentina's action, Uruguay enacted a very similar tariff schedule. Brazil has also initiated a substantial process of tariff reductions, in order to reverse the protectionist policies of the 1970s. During that period, Brazil raised tariffs, eventually to prohibitive levels, on imports that it designated as "superfluous." In 1991, Brazil's tariffs were as high as 80% on many products. For the last two years, Brazil has met each of its tariff reduction targets. Tariff cuts are scheduled to continue until the average level of protection is reduced to 18% by the end of 1994.[148] Paraguay has had a de facto open economy for some time. Even though Paraguay's ostensible tariffs were until recently very high, rampant smuggling into the economy meant that there were in practice no real barriers to imports.

Progress towards a common external tariff was aided immeasurably by the fact that the tariff structures of the Mercosur countries are becoming more complementary. Mercosur has made substantial improvements over previous integration efforts with regard to the establishment of a common external tariff. At first, it appeared that only lip-service was being paid to the need for a common barrier to the rest of the world, as the treaty merely stated that a common external tariff would be established eventually, while nothing was mentioned about how this process was to proceed.

At the Las Lenas summit in June 1992, however, negotiations were initiated to establish the level of common external protection. A few months later, a common tariff level of 20% was agreed upon for most products, starting in June 1993. A smaller number of goods, most notably computers, will have a common rate of 35%. Significantly, tariffs on this smaller list are scheduled to be reduced from 35 per cent to 20 per cent over the period 1995 to 2001.[149]

AFTA

A very important factor working in favor of AFTA is that most of the leaders of ASEAN have committed themselves to tariff liberalization. Considering the fact that most of their economies are based on exports, the ASEAN leaders know that they must remain internationally competitive lest their country's prosperity be threatened. Even in the absence of the rise of economic regionalism, the countries of ASEAN likely would have felt inexorable pressure to lower their tariffs to ensure that their exports remain globally competitive.

It is significant that a number of countries were proceeding with liberalization strategies even before AFTA. Former Prime Minister Anand of Thailand pointed out that "most of us have been liberalizing our tariff and import regimes. We are now better equipped then ever

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147 FBIS 5 March 1991 (Buenos Aires HERALD, 2 Mar, p. 7)

148 FBIS 2 Oct. 1991 (Gazeta Mercantil, 28 Aug., p. 6)

149 Latin American Regional Reports, 4 February 1993, p. 4. Southern Cone Report.

before to move towards a higher plane of ASEAN economic cooperation." In June 1991, Indonesia dramatically lowered its tariffs and barriers to foreign investment.[150] The average tariffs on goods imported into Indonesia is now (20%). For the past few years, Malaysia has been lowering its barriers to foreign goods, and now has an average tariff rate of only (9%).[151] Thailand, which before AFTA had the highest tariff levels within ASEAN, announced immediately after the Singapore summit that it would unilaterally reduce tariffs faster than the agreement calls for. Thai tariffs on more than 1,000 ASEAN goods were reduced to 30% on Feb. 16, 1993.[152] Singapore and Brunei do not need to substantially reduce their tariffs to comply with AFTA, since they have de facto free trade already. In fact, at the beginning of 1993, Singapore completely eliminated tariffs on all ASEAN imported products, thereby fulfilling its commitment to AFTA fifteen years ahead of schedule.[153] The Philippines is the clear laggard in terms of tariff reduction. Before AFTA they had the second highest tariff levels within ASEAN, and there is no sign that they wish to engage in dramatic reductions in the near future. With the other countries heading towards liberalization, however, there may be increased pressure for the Philippines to open its markets.

Thus, while there is still a high degree of divergence of tariff structures within ASEAN, the overall trend is highly encouraging. Nevertheless, in marked contrast to Mercosur, the leaders of ASEAN have not made the establishment of a common external tariff a policy goal. The Framework Agreement did not even mention the possibility that a common external tariff might be established at some point in the future. While some analysts and policy makers argued that a common external tariff would be necessary in order for ASEAN to fully benefit from tariff liberalization, the leaders of ASEAN have shown a particular unwillingness to consider this option.

Regional Economic Planning

Mercosur

Regional economic planning failed in previous integration efforts because too much was attempted with regard to regional development, while insufficient attention was paid to macro-economic coordination. The architects of Mercosur have wisely attempted to reverse this concentration.

In marked contrast to previous integration efforts, the members of Mercosur are striving to make the private sector, and not the government, the primary force behind integration. In the 1960s and 1970s. regional trade pacts assigned industries to certain countries in order to strengthen import substitution, which was a government sponsored economic policy. Governments sought to alter the economy directly in order to foster prosperity, and it was hoped that the private sector would cooperate with that

[150] Far East Economic Review, June 13, 1991, pp. 73-4
[151] The Nation, January 22, 1992, pp. A1, A2
[152] Business Times [Singapore], January 1, 1993
[153] Straits Times, January 1, 1993, p. 47

process. This time, however, the Mercosur governments are trying, according to Domingo Cavallo, merely to "create an atmosphere...to allow profiting from opportunities."[154] Mercosur's more decentralized process of integration should prove to be far more dynamic and economically rewarding than was the slow, politicized procedure of regional development planning.

Although Mercosur's position with respect to harmonization of economic policies is an improvement over previous integration attempts, it remains only a marginal one. The framers of Mercosur recognized the need to coordinate economic policies in order for the agreement to proceed expeditiously. Fiscal policy coordination was seen as important to prevent significant differentiation in the levels of economic growth between countries in the region. Most importantly, the need to control the oscillation of exchange rates was deemed imperative in order to foster stable trading patterns and avoid artificial trade imbalances. Exchange rates in the region over the past twenty years have gyrated wildly, and the uncertainty stemming from this has had a severe impact on the level of trade. Exchange rates have been particularly unstable due to the plethora of exchange rate controls the countries have adopted to protect their balance of payments.[155]

The need for macro-economic policy coordination is amply demonstrated by the current situation in Brazil, which is in a deep recession and is concurrently experiencing hyper-inflation. Brazil currently has a marked trade advantage over its Mercosur partners, as exchange rates are artificially low and Brazilian producers have excess capacity which they are willing to sell abroad at very low prices. As a result, Brazil is currently running a massive trade surplus with Argentina, which has led to a substantial decrease in the popularity of Mercosur within Argentina and placed great strain on the agreement. Despite the pressing need for some degree of economic policy coordination, as yet there has been virtually no progress in this area whatsoever. Proposals on how macro-economic coordination might be attempted will not even be finished until December 1993.[156] As this is only one year before full coordination was originally scheduled, it is evident that Mercosur will fall far short of the goals of the Treaty of Asuncion in this area.

AFTA

In its original attempt at economic integration, ASEAN placed a heavy emphasis on regional development planning. Under the ASEAN Industrial Projects (AIP) program, countries were to be granted comparative advantage within the region in five specific industries, with equity jointly held by the members of ASEAN. While great efforts were made towards establishing regional comparative advantage, the group was one of only a few integration schemes which did not have the establishment of a common

[154] FBIS, 11 April 1991 (TELAM, 10 April 1991)

[155] Tavares, p. 16

[156] FBIS, 29 June 1992. (TELAM, 27 June 1992.)

external tariff or macro-economic coordination as a policy goal.

While ASEAN has abandoned the goal of regional development planning in its current integration proposal, the group has retained its dislike of other forms of regional economic planning. In the PTA, the group did not attempt to establish a common external tariff or coordinate macro-economic policies because of substantial differences in the levels of development, the region's tariff structures, and strategies of economic development. While the group's development strategies and tariff structures have become much more complementary in recent years, movement towards regional economic planning will continue to be constrained by the divergent levels of development. Both the more developed and the less developed countries would likely be hurt more than they would gain as a result of any kind of merging of their economic policies.

The low commitment to regional economic planning is also a reflection of the pace of tariff reductions within AFTA. Mercosur has already reduced tariffs significantly, and there is consequently a strong need for macro-economic coordination and a common external tariff in order to prevent imbalances. In contrast, AFTA's tariff reductions will not take effect for a number of years. As a result, there is no danger of imbalances and inefficiencies of the sort that currently exist between Brazil and Argentina. Once tariff reductions eventually commence, regional economic planning may become a more pressing issue within AFTA.

Military Rule and Regional Rivalries

Mercosur

At the start of the 1980s, all of the Mercosur countries were ruled by military dictatorships. In 1983, Argentina became the first country in the region to re-establish democratic government, followed by Uruguay in the next year, then Brazil in 1985, and finally Paraguay in 1989. This dramatic democratic transformation has reduced security tensions within the region substantially, thereby eliminating an important obstacle to integration.

The lessening of security tensions between Brazil and Argentina has been particularly marked and important. Until 1985, Brazil and Argentina saw each other as their primary security threat, and competed for regional hegemony. With the return to democracy, these two countries have replaced their former enmity with pledges of cooperation. Both Argentina and Brazil actually see integration as a means of strengthening their political ties in order to move beyond their tradition of mutual suspicion. Each hope that integration will highlight the benefits of cooperation between the two countries, and will increase the perception of each other as partners rather than rivals.

The new attitudes between these two countries is reflected in several recent policy iniatives. There has been substantial cooperation between Argentina and Brazil with regard to nuclear weapons. In order to end their nuclear rivalry, a number of important accords were signed between the two countries, notably an agreement on July 18 which prohibits "the testing, use or production of any type of nuclear

weapon."[157] To assure that nuclear programs would only be used for peaceful purposes, each country was granted unrestricted access to the other's nuclear facilities. In addition, Brazil and Argentina are considering merging some aspects of their diplomatic activity. Already, the two countries have united their positions with respect to the development of nuclear energy, and actually alternate representing each other at the International Atomic Energy Agency. There is also discussion of eventually having a unified consulate or even a single ambassador in more than 30 countries.[158]

AFTA

Within Mercosur, there are no territorial disputes, the member countries do not look askance at each other's military capabilities, and there is little concern about intra-regional security. In marked contrast, the countries of ASEAN have not yet resolved their intra-regional security concerns. The move towards democracy within ASEAN has not had the same salutary effects upon regional tensions as within Mercosur. This is largely because the roots of the disputes within ASEAN have less to do with the role of the military in politics, but are instead attributable to historical, cultural, and geographic factors. While ASEAN countries are not hostile towards each other, their suspicious attitudes towards each other will likely prove to be a significant restriction on integration efforts.

There are currently a number of significant border disputes within ASEAN. Just before the Singapore summit which initiated AFTA, Thailand and Malaysia engaged in negotiations regarding their borders. A dispute arose because uniformed Thai soldiers entered into Malaysian territory once in July 1990 and four times in December 1990. After the talks between the two countries, Prime Minister Mahathir of Malaysia released a statement that "Thailand has agreed that it will not resort to provocative acts and will have discussions with Malaysia on any problem relating to territory."[159] At this time, Mahathir also held discussions with President Suharto of Indonesia over borders, specifically over the Sipadan and Ligitan Islands that Indonesia claims. In another dispute, Malaysia and Singapore are currently contesting sovereignty over Pedra Branca islands.[160] Perhaps the most serious cause of enmity within ASEAN is the Spratly islands, an area with potentially rich deposits of oil and gas claimed wholly or in part by Brunei, Malaysia, the Philippines, China, Vietnam, and Taiwan. Discussions over the Spratlys dominated the ASEAN foreign ministers' meeting in July 1992.[161] In addition, there are significant frictions caused by differences in Thai and Indonesian policies towards Cambodia. While none of these disputes threatens to lead to hostilities, their presence in an indication of the

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157 Latin American Weekly Reports, 1 August 1991, p.4.

158 FBIS. 16 Sept. 1991 (Gazeta Mercantil, 17-19 Aug., pp. 1,3)

159 Bernama, January 26, 1992.

160 International Defense Review, August 1992, p.732

161 Straits Times, September 9, 1992

suspicious attitude that ASEAN's members have towards each other. That defense budgets within the region are rising at a very rapid pace does not bode well for AFTA.

Non-Tariff Barriers

Mercosur

Mercosur is an improvement over most previous developing country inte· ·.ion efforts, in that the need to deal wit.ı tne problem of NTBs was recognized. Under the terms of the Mercosur agreement, "all nontariff restrictions will be lifted within the common market" by the end of 1994.[162] However, as the experience of the Andean Pact demonstrates, it is not enough merely to issue a blanket elimination of NTBs. Mercosur has not yet enumerated the specific administrative practices that are to be eliminated.

The most important NTB that Mercosur has not dealt with sufficiently is export promotion. While Mercosur agreement stated that standards would be established in relation to export promotion, the working group assigned to this task has not yet drawn up any specific recommendations.[163] As a result, there are already a number of grievances within Mercosur with regard to excessive subsidization, mostly directed at Brazil. The other three Mercosur members charge that Brazilian companies enjoy artificially low prices for inputs such as steel, gas and electricity.[164] In addition, formal complaints have been lodged against Brazil for subsidizing exporters by under-writing the difference between the very high domestic interest rates and the lower ones that exist abroad.[165]

AFTA

Much like Mercosur, while the AFTA agreement states that non-tariff barriers will be eliminated, there is nevertheless no specific provision to reach that end. As a result, progress in reducing tariffs threatens to be undermined by an increase in the importance of informal barriers to trade. Tensions within ASEAN could begin to accumulate until a means is devised to assure each of the members that their companies are on an equal footing with competitors in the rest of the region.

Export promotion policies do not have the same degree of importance within ASEAN as they do within Mercosur. Instead, product standards are the most important kind of NTB which AFTA must deal with. Without common health, safety and other standards, then trade flows within ASEAN could be greatly disrupted. Product standards vary greatly within ASEAN largely as a result of the large

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162 Annex 1, Article 10 of the Treaty of Asuncion

163 FBIS 29 June, 1992. (TELAM, 27 June 1992.) The negotiators working in the area of export promotion are scheduled to submit their final report in September, 1993.

164 Latin American Regional Reports, 10 September 1992, Southern Cone Report, p. 4

165 Latin American Regional Reports, Special Report: Free Trade and Common Markets, June 1992, p. 4

disparities in the levels of development within the region.

Because new kinds of barriers may be created to replace the proscribed procedures, the AFTA agreement will have to be flexible enough to incorporate these new practices. ASEAN will also have to establish the necessary mechanisms to ensure that countries are in compliance with the terms of the agreement. Because many countries in the region do not have well-trained bureaucracies, the ASEAN Secretariat may have assume some part of the enforcement process in this area.

Regional Infrastructure Development

Mercosur

The progress of Mercosur has been furthered because there now exists a substantial degree of cooperation with regard to regional infrastructure development. While many of these projects are occurring independently of Mercosur, the agreement's existence has provided significant support for expanding linkages within the region.

Improving the ease of transportation within the region is currently a top priority of the leaders of the Southern Cone. The governments of Argentina and Uruguay plan to construct a $ 1 billion, 30 mile bridge across the La Plata River, linking the city of Colonia in Uruguay to Buenos Aires. This bridge would reduce the travel distance between Montevideo and Buenos Aires by 170 miles.[166] There is also great interest in promoting the Southern Cone Highway System, in order to expedite the transport of goods between the four countries.[167] Plans have been drawn for a $2.5 billion, 1,500 mile expressway along the Atlantic Ocean, which would link São Paulo with the capitals of Argentina and Uruguay. Bidding is expected to be completed in 1994, and construction to start in 1995.[168] Regulations are also being eased on the transport of goods along the Paraná-Paraguay rivers, in order to allow agricultural goods from Paraguay and southern Brazil to be transported to the sea at substantially reduced costs. There is also discussion of opening of national air space to airlines with the flag of the four countries.[169] Most important, however, is the Hydrovia project, a plan to make the Paraná and Paraguay rivers navigable for the entire year, as opposed to the current three months. The Hydrovia would open to farming and commerce huge sections of the four countries, especially in Paraguay and Brazil, which are currently undeveloped.

There is a very substantial amount of regional cooperation on energy issues, the most notable being the Itaipu Dam, which has been run jointly by Paraguay and Brazil since 1982. Energy accords have also been signed by the Paraguayan and Argentinian Presidents. It is hoped that Argentina will supply Paraguay with oil, oil by-products, and liquefied petroleum gas, while Paraguay will supply Argentina

166 FBIS, 30 Dec. 1991 (Telam, 27 Dec. 91)

167 FBIS, 30 Dec. 1991 (Telam, 27 Dec. 91)

168 Financial Times, 4 November 1992, p. 8

169 FBIS, 16 Sept. 1991 (Gazeta Mercantil, 17-19 Aug., pp. 1,3)

with electricity.[170] On August 17, 1992 the state oil companies of Argentina and Brazil agreed to begin construction on a $10 billion gas pipeline from northern Argentina to Sao Paulo. To accomplish this, a "consortium will be set up between the two state enterprises and private partners to explore for gas and oil, run a refinery, and build the pipeline."[171] Other issues of energy integration that are discussed include studying the possibility of shared use of electric power from the Paraná, Paraguay and Uruguay rivers, interconnecting the Itaipu dam with the Uruguayan-Argentine hydroelectric station at Salto Grande, and the construction of a joint Argentine-Paraguayan power station at Yacrieta.[172]

A number of proposals have been advanced to enhance the communications links between the four countries. Brazil's minister of infrastructure, Joao Santana, proposed that a Brazilian satellite be launched that would serve all of Mercosur's members. Another proposal that has been made is to have the postal services of the four countries be integrated.[173] The four countries are currently investing over $100 million in a fiber optic network for easier communication. Cellular phone calls will also now be possible between the four countries within Mercosur.[174]

AFTA

The framers of AFTA recognized that promoting regional infrastructural development was very important to ensuring that the agreement was fully successful. As a result, the agreement calls for increased cooperation in a broad range of areas, rather than concentrating solely on trade. The Framework agreement states that the members of ASEAN will increase cooperation in five areas: trade, energy, agriculture, transportation/communications and finance. In addition, the AFTA treaty requires member states to promote linkages with regard to the transfer of technology, research and development, tourism, and human resource development.

Although it is significant that ASEAN recognizes that the creation of a regional economy will involve more than the reduction of tariffs, the Framework agreement nevertheless contains no specific recommendation for increasing cooperation in these areas. As a result, there are no concrete regional projects of the sort that are presently underway in Mercosur. In this respect, ASEAN is not any different from integration efforts in the 1960s and 1970s, as they also established expansive goals for cooperating in non-economic areas but rarely achieved any tangible results.

It will be more difficult for ASEAN to achieve progress in this area than it will be for Mercosur, as there is less impetus towards regional cooperation. It is important to understand that the regional coordination would probably proceed even

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170 FBIS, 31 Dec. 90 (Ultima Hora, 28 Dec.)
171 Latin American Weekly Report, Sept. 3, 1992., p. 3
172 FBIS, 16 Sept. 1991 (Gazeta Mercantil, 17-19 Aug., pp. 1,3)
173 Gazeta Mercantil, 6 Aug. '91, p.6
174 FBIS, 29 June 1992, (Buenos Aires Herlad, 26 June 1992, p.11)

in the absence of the Treaty of Asuncion. Much more so than in the past, geographic propinquity is having a strong positive impact on the policies of countries within the Southern Cone towards their neighbors, as they now see it as being in their national self-interest to work together. In contrast, the members of ASEAN do not yet have any strong forces independent of AFTA pushing them towards infrastructural coordination.

Conclusion

Regional economic integration is a phenomenon which has dramatically re-emerged in the developing world, with more than ten proposals having been advanced during the last three years. With the multitude of proposals that have been advanced, there is a need for a framework which is capable of assessing the potential of each of these agreements. Through an examination of eight integration attempts from the 1960s and 1970s, this study sought to identify the most important factors that affect the efficacy of regional integration efforts in the Third World.

Only two case studies- Mercosur and AFTA- were examined using this evaluative framework. As yet, these are the only two developing country trade pacts that are at an advanced enough stage to warrant a detailed evaluation. Several conclusions can be drawn from the analysis of these two trade blocs. First, it is evident that neither Mercosur nor AFTA have avoided all of the structural deficiencies that plagued integration efforts in the 1960s and 1970s. Both Mercosur and AFTA are insufficient in several important areas, namely the elimination of non-tariff barriers and regional economic planning. However, Mercosur and AFTA have both made a number of important gains vis-à-vis previous integration efforts. Both agreements are superior to the past with regard to the degree of product coverage and in terms of making their tariff structures more compatible. Overall, however, it is clear that Mercosur has succeeded to a much greater degree than has AFTA. Specifically, there are four areas where only Mercosur, and not AFTA, has avoided the structural problems that plagued previous integration efforts, namely the promotion of regional infrastructure development, the scope and process of tariff reductions, regional security tensions, and mitigating the effects of different levels of development within the group. On this basis, it would therefore seem that Mercosur is much more likely to succeed than is AFTA. The experiences of these two trade pacts in the last few years, where Mercosur has already reduced barriers to intra-regional trade by more than 61% whereas AFTA has not yet begun to reduce tariffs, seems to confirm this evaluation.

Although the structure and terms of Mercosur are an improvement over past regional trade pacts, this is not to say that the agreement is guaranteed success. There are a number of unpredictable problems that could plague Mercosur which are completely independent of the particular terms of the agreement, including chronic trade imbalances, potential deterioration of political relations and, most notably, Brazil's ongoing

political and economic instability. Problems such as these have the potential to derail even the most carefully written plan for economic integration. It is nevertheless evident that the framers of Mercosur should be commended for having avoided most of the problems associated with regional integration which were within their power to control. The progress of Mercosur during the next few years should provide an interesting test of the applicability of the evaluative framework developed in this study for assessing other developing country integration schemes.

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